Understanding China

Young-Chan Kim *Editor*

China and the Belt and Road Initiative

Trade Relationships, Business Opportunities and Political Impacts

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Young-Chan Kim
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ISSN 2196-3134 ISSN 2196-3142 (electronic)
Understanding China
ISBN 978-3-030-86121-6 ISBN 978-3-030-86122-3 (eBook)
https://doi.org/10.1007/978-3-030-86122-3

This Springer imprint is published by the registered company Springer Nature Switzerland AG
The registered company address is: Gewerbestrasse 11, 6330 Cham, Switzerland

Acknowledgements

Since the ‘Twenty-First-Century China—A New Perspective’ project first launched in 2016, the series has been supported with great generosity by a host of researchers, government officials, think tanks and business managers from all around the world. This series has steadily evolved from a one-term collaboration project, to a global research initiative aimed at giving established and up-and-coming academics, a platform to voice their contemporary research on Chinese Regional Studies.

This series would have never materialised without the support of the Academia Sinica in Taiwan and SOAS, University of London in the UK. Special thanks further go to Professor Michael Hsiao from the Academia Sinica and Professor Lean Hooi Hooi from the Universiti Sains Malaysia, for their continuous encouragement and guidance.

I am further grateful to Johannes Glaeser and the publishing team at Springer for their dedicated professionalism and confidence in the project. The series has gone from strength to strength, with earlier publications being recognised for their forward-thinking insight into Chinese Regional Strategy. Future collaborations are currently in the process of being negotiated, with several projects already progressing in the build-up to the ‘Made in China 2025’ policy.

Lastly, my greatest thanks go to my two sons whose support and cheers have given me the motivation to press ahead with an area of research that is likely to influence the lives of their generation in the years ahead.

Contents

Country Case Studies

EU–China Trade: A Review of the Facts and Where We Stand

Alicia Garcia Herrero and Jianwei Xu

Abstract This chapter provides a contextual insight into the influx of trade—focusing particularly on Chinese exports in goods to the global market. As a comparatively less developed and highly populated country, China held a considerable degree of demand potential for the world's manufactures and the advantage of low labor cost to produce goods. Over the past decades, China's market reform and openness have contributed to the better use of such resources, unleashing such a potential strength into practice. For the European companies, China was not only a fresh market for expansion, but also an offshore center to outsource labor-intensive activities to maintain competitiveness. China has also made its best use of this opportunity to learn from the European countries and jumped all the way to become a middle-income economy. This process of China's rapid globalization and the ensuing knock-on effects on European markets will be evaluated with reference to the current standpoint of EU–China relations.

Keywords Chinese market reforms · Open policy · Middle-income country · EU–China relations

1 Background

The most prominent economic characteristic associated with China's rise is the massive trade, and notably, Chinese exports in goods to the global market. As a less developed and highly populated country, China owned strong demand potential for the world's manufactures and the advantage of low labor cost to produce goods. Over the past decades, China's market reform and openness have contributed to the better use of such resources, unleashing such a potential strength into practice.

The fast-growing market and production capability in China laid out the fundamentals for our understanding of China–EU relationship for the past decades. For

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Y.-C. Kim (ed.), *China and the Belt and Road Initiative*, Understanding China,
https://doi.org/10.1007/978-3-030-86122-3_1

the European companies, China was not only a fresh market for expansion, but also an offshore center to outsource labor-intensive activities to maintain competitiveness. China has also made its best use of the chance to learn from the European and jumped all the way to a middle-income economy. The process of China's globalization features a large market and lower production cost and in essence led to a win–win outcome for both the EU and China.

However, comparative advantage is never a static concept. It always changed with the stage of economic development. More importantly, trade integration caused income redistribution effect within the developed countries. The latter is particularly concerning for the competitive labor-intensive sectors with whom China's patriation posed direct competition. As such, the rise of China inevitably caused repercussions in the developed nations. With large influx of goods sourced from China, the world's major economies, especially the USA and to a less extent the EU, have fallen into external deficit against China, exerting pressure on their own domestic competitors. Several influential studies, i.e., Autor et al. (2013)[1] and Acemoglu et al. (2016),[2] have empirically justified that the rise of China has led significant distributional effects in the US labor market. Researchers also found similar effects for the case of European labor markets (Dauth et al., 2014 and Balsvik et al., 2014).

The issue is becoming increasingly concerning in recent years, as China gradually moved up along the technology ladder and charged into the high-technology fields of the developed countries. In particular, massive investment pouring into research and development expenditures fields pushed China's R&D share in GDP and has surpassed that for the EU. These efforts result in a big increase in the high-skilled goods embedded in China's exports. The most famous example is the rising exports of a Chinese telecommunication equipment and consumer electronic company, Huawei, which has been under spotlight since the launch of trade war. For China, the technology transformation may be an inevitable process against the backdrop of the fast growth in labor income and aging population, with the old model relying on cheap labor becoming less sustainable. In other words, China needs and is in the process to search for a new field to sustain its economic growth, posing increasing competition with the high-end technology sectors in the EU.

Since then, the world's perception is that China has, to some extent, gone beyond the current status as low-cost labor-driven development model to catch up a technology-driven economy. It is also argued especially among the developed countries that, during the catch-up process, a number of the special characteristics facilitated China's competition with the western companies.

In recent years, both the EU and the USA have started to cast doubts on these China-specific policies. In particular, the USA escalated such a concern and turned to much harsher tone since the beginning of 2018 when the USA first launched fire on

[1] David Autor, David Dorn, and Gordon Hanson, "The China Syndrome: Local Labor Market Effects of Import Competition in the United States", American Economic Review, October 2013.

[2] Daron Acemoglu, David Autor, David Dorn, Gordon Hanson, and Brendan Price, "Import Competition and the Great U.S. Employment Sag of the 2000s", Journal of Labor Economics, January 2016.

China for these activities, known as the US–China trade war. Arguing that the USA has lost huge benefits through trading with China for the past decades, the Trump administration vowed to address the issue as soon as possible. It implemented drastic measures from unanimously slapping tariffs on Chinese imports to threatening to overthrow the current order maintained by the World Trade Organization. The US dissatisfaction with China soon goes to global doubts on the China model. As if it were not enough, the arrival of COVID-19 has further heightened the US–China conflicts.

The new environment leaves the European Union a tough position. On the one hand, the EU, as a long-term alliance with the USA, has been standing on the side of the mainstream western market values. But on the other hand, it wants to use the multilateral system to address the issue instead of the bilateral one taken by the Trump administration. The conflict seemed to become less severe if the Biden administration takes power, but one cannot ignore the internal conflict within the EU and also between the USA and the EU member countries, which could to some extent complicate the joint attitude toward China.

2 The Normalization of China–EU Trade Relationship and the Surge of Trade in Goods

The first push for China–EU trade was the normalization of China–EU diplomatic relation in 1975, when Christopher Soames became the first European Commissioner visiting China. This happened right after China's establishing formal diplomatic relation with the USA. Three years later, China and the EU signed the first trade agreement labeled "Sino-EU Trade and Economic Cooperation Agreement." The relationship was further strengthened in 1985 when an updated agreement covering a number of important aspects of China–EU economic links, i.e., trade, investment, development assistance, was signed.[3]

The new agreement expedited the growth of trade in goods between the EU and China. For example, China's trade with the major two economies in continental Europe, namely West Germany and France, has, respectively, tripled and quadrupled from nearly none in the early 1970s to $8.0 and $4.5 billion in 1989. That said, the pace of such growth was much lower than that of the USA, which has witnessed trade in goods with China expanded to more than $24 billion in 1989.

In the 1990s, China conducted a more comprehensive market reform following Deng Xiaoping's Southern Tour and established a market-based economic system. With the acceleration of economic reforms, the EU–China economic relation has further strengthened, boosting trade development between the two blocs. Over this period, the major EU countries, namely Germany, France and the UK, have significantly increased their trade with China, especially on the import side. In particular,

[3] MOFCOM, 2009, "Europe-China Economic and Trade Relationship Is Developing Fully", http://fi2.mofcom.gov.cn/article/bilateralcooperation/inbrief/200902/20090206027519.shtml.

the UK's imports from China increased by more than 10 times from 1993 to 2000. For the whole EU-28, its trade deficit with China has also widened in the 1990s.

The above is an important note for our study. While many modern trade observers tend to link China's miraculous export growth to its accession to WTO as the latter lowered the cost of Chinese goods to the world market, the reality is that China's capability has deeper fundamental root and had already started in the 1990s. In fact, what the WTO offers China comparing with the 1990s is the removal of most China's import restrictions from the west, while the tariffs for Chinese exports had already been kept at a low level under the MFN schemes in the 1990s. Still, the rise in imports is critical for China to enhance production efficiency, including the cost of its exports.

One of the important features during this period is the trade surplus that China is able to maintain vis-à-vis a few key EU countries and the USA (Charts 1 and 2). However, the values for these partner countries were very small even after the

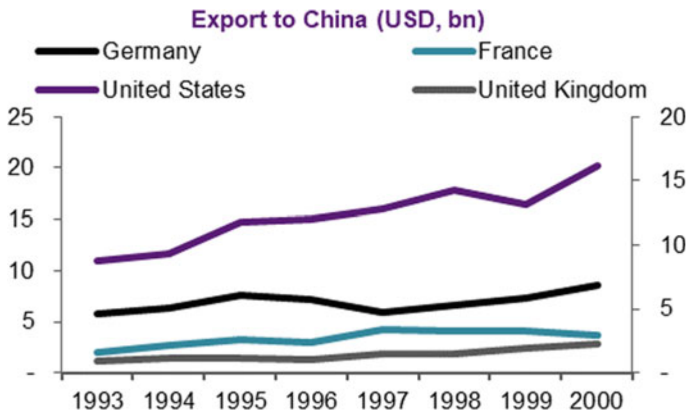


Chart 1 *Source* Natixis, UNComtrade

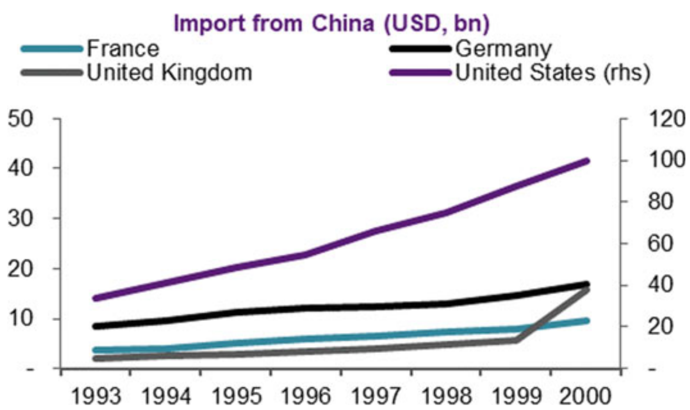


Chart 2 *Source* Natixis, UNComtrade

Table 1 Major EU countries and the US's trade balance with China

	1993		2000	
	Value (bn)	% GDP	Value (bn)	% GDP
Germany	−2.5	−0.12	−8.3	−0.42
France	−2.2	−0.17	−6.6	−0.48
UK	−1	−0.09	−13.6	−0.83
USA	−24.9	−0.36	−83.8	−0.81

rapid growth, with none of these surpassing one percent of their GDP (Table 1). This explained why the rapid growth of Chinese exports attracted not too much attention of the west during this period.

Then it comes the millennium event that China accesses the WTO in 2001. Since then, the trade ties between EU and China have strengthened markedly. Under the multilateral international framework, China removed a large volume of importing tariffs for the other WTO members, and itself is granted with a permanent MFN tariff rate in replacement of the earlier temporary MFN status susceptible to annual assessment.

Against the backdrop, the trade volume between China and the EU skyrocketed in the new phase. China seemed to have reaped its full potential of demographic dividend with the opportunity offered by easier market access to enter the western market, including the EU-28. The share of China in EU's total trade in goods has almost tripled since 2000, growing from slightly above 5% to more than 15% after 2015 (Chart 3). While there has been significant growth of the EU's exports to China, the total volume of bilateral trade is mainly driven by the EU's increasing import of goods from China (Chart 4).

Because of the pronounced differences in volumes between exports and imports, the EU's trade deficit to China significantly widened since the beginning of the century, reflecting on the increasing role of Chinese exports in the global market.

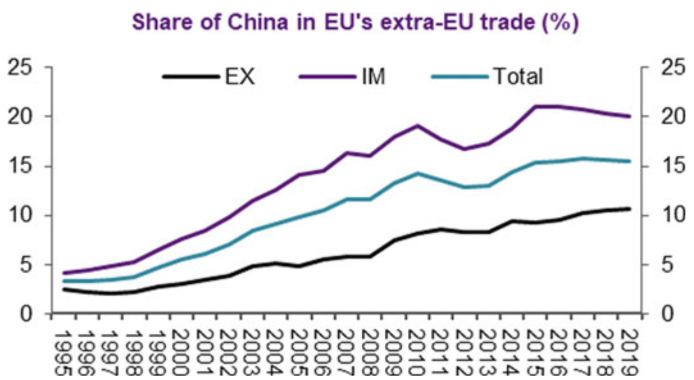


Chart 3 *Source* UNCTAD, Natixis

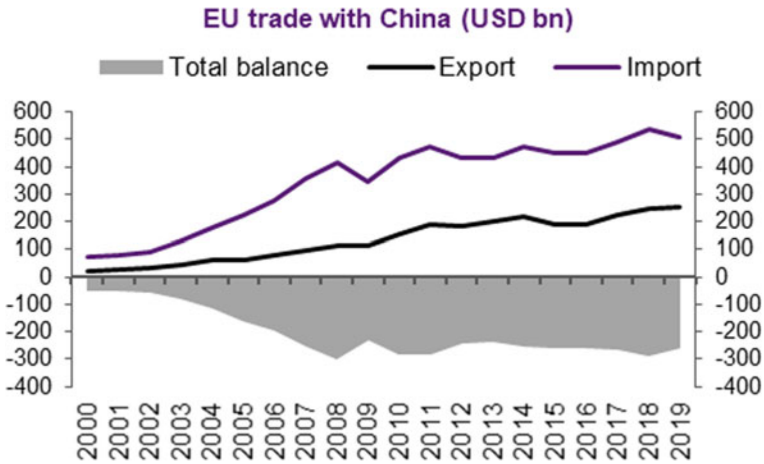


Chart 4 *Source* UNCTAD, Natixis

In 2018, the EU's trade deficit with China has exceeded 185 billion euro. This has already raised the EU's concerns over the imbalanced trade pattern between China and the EU.

Moving forward, the strength of Chinese exports will probably continue to increase but the influence on global market share might be less certain. On the one hand, China's export per capita is still low compared with the other major economies in 2019, so the potential of Chinese exports, if moving in tandem of economic development, will lead to higher export value in the future, continuing to pose trade shock to the global economy (Chart 5). But on the other hand, China's growth model has already been relying less on exports with the surge of domestic demand, and also the global trade environment has become tougher on the goods made in China (Chart 6).

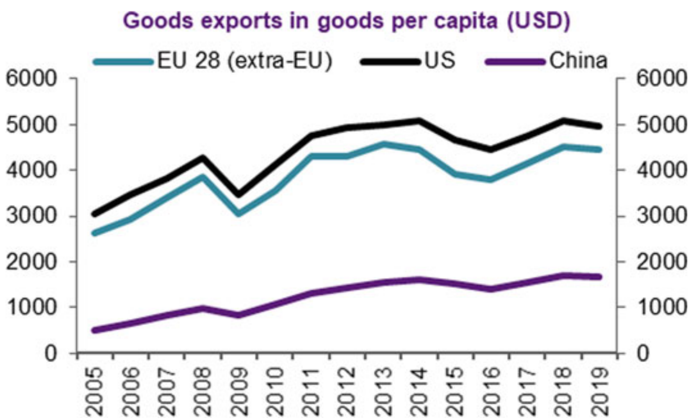


Chart 5 *Source* Natixis, UNCTAD, World Develop Indicator, ESTAT

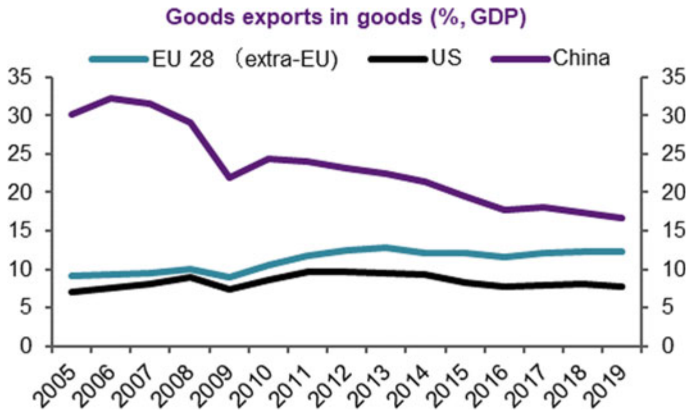


Chart 6 *Source* Natixis, UNCTAD, World Develop Indicator, ESTAT

As such, while it is with little doubt that Chinese exports will continue increasing in absolute level, the final effect on global market will be, to some extent, also affected by China's domestic consumption capacity and competitive supplies from the other economies.

3 Is the EU–China Trade Relationship Complementary or Substitution?

Because of the distinct comparative advantage in labor, capital and technology endowment, China and the EU have shown to be more complementary than substitution in their trade for most of the time in the past.

In the 1990s before the accession to the WTO, China exported a variety of labor-intensive products such as baby carriages and toys, articles of apparel, handbags and similar containers, footwear, women's clothing, whereas the EU is specialized in supplying telecommunication equipment, particularly machines and aircraft, etc. This has been a typical example of the textbook in explaining the comparative advantage, with China as a developing nation specializing in labor-intensive goods, while the EU as a developed nation specializing in capital-intensive goods.

The complementarity feature is still the case nowadays. In 2018, China's exports to the EU and the EU's exports to China fit into different categories of goods. The EU's top exports to China include high-end manufactured goods such as motor vehicles, aircraft, medical equipment and semiconductors (Chart 7), whereas it imports low- to medium-end manufactured goods such as machinery equipment and consumer goods from China (Chart 8). The only overlap in their exports in the top ten products is the apparatus for electrical circuits, which is famous for being deeply integrated in the global supply chain. In fact, China and the EU have been performing well

Chart 7 *Source* UNCTAD, Natixis N.B. Product classified at SITC-3

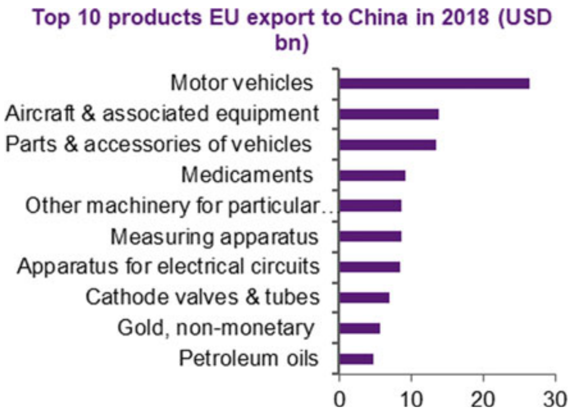
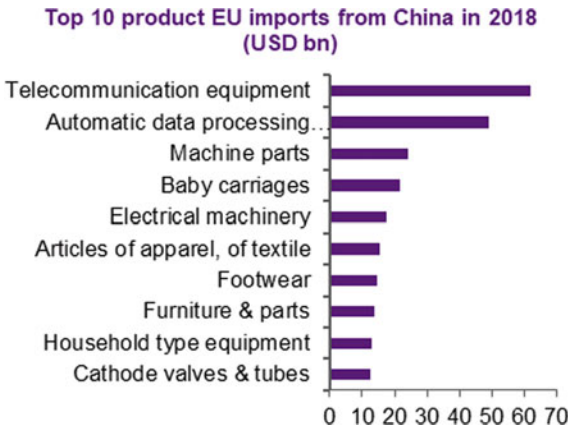


Chart 8 *Source* UNCTAD, Natixis N.B. Product classified at SITC-3



in different stages of electrical circuits with very limited competition. For example, China has developed rapidly in the design of integrated circuits and packaging but fall far behind in the manufacturing stage.

However, while the main complementarity theme remained unchanged, the competition component has been rising. In fact, even during this early stage, China was already involved in the global supply chain, as there were some overlaps in China's and the EU's exports back at that time. The situation has accelerated in the new century as China climbed up along the technology ladder. Fueled by eased bottlenecks in importing from the developed countries, the share of Chinese exports in the high-technology goods has significantly increased. For example, automatic data equipment and telecommunication equipment sustained as China's top exports, and their total share in Chinese exports has increased further to nearly 20%. On the other side, the EU still specialized in capital and technology-intensive activities, exporting the high-technology goods such as aircraft, motor vehicles and machine parts.

Chart 9 *Source* Natixis, OECD Tiva

That said, China's advances in exporting higher technology goods could also not be exaggerated. Most of the rising exports featured in the large volume of processing trade, or the business activity of importing parts and components from abroad for processing or assembly, with the finished goods re-exported to the rest of the world (Koopman, Zhang and Wei, 2008[4]). This implies that China's exports in the high-technology goods are intensely integrated with global supply chain offered by the rest of the world, leading to significantly less domestic value added than its EU counterparts (Chart 9). In other words, per same unit of exports, the EU gains more for domestic economy than China. It explains why the rise in Chinese exports is fragile to global uncertainties, especially in the high-technology fields, which pushes it to exert more efforts to innovate and overcome the shortcomings in the sector.

As such, while China first participated in the high-technology market share by focusing on the low-profit activities such as assembly with high reliance on the foreign inputs for key intermediate goods, it has continued learning by doing and gradually increased the domestic value added embedded in exports. One additional pushing factor for such a move is China's rising labor cost in recent years, reducing its advantages in offering cheaper goods. In other words, China tries to accelerate climbing up the technology ladder to increase productivity to offset the rising labor cost. Another reason is to guarantee self-reliance in case of negative shocks. This motive is especially getting stronger after China realizing that it has relied too much on foreign input for production in key goods and the fragility of such a trade mode in an increasingly uncertain international environment. Consequently, China has been pushing hard for self-sufficiency of its supply of high-technology goods.

To reach the goal of technology upgrading and economic transition, China has accelerated its reform and opening up, easing bottlenecks in factor movement. China has largely increased labor mobility across regions by softening restrictions on hukou

[4] Koopman, Wang and Shang-Jin Wei, 2012, "Estimating domestic content in exports when processing trade is pervasive", Journal of Development Economics, Vol. 99(1), pp. 178–189.

and also offered more opportunities for start-up companies to access to equity finance, e.g., the entablement of the Sci-Tech innovation board. Also, Chinese government has put enormous efforts to support the critical technology field with its up-to-bottom strength. The most obvious example is in the semiconductor industry which plays a key role for electronics and the future technological application. China has built two rounds of investment fund, called big fund, to support the development of the sector.

China's fast movement in lifting technology capability with strong government support poses competition challenges to the EU. The situation has been especially stood out toward some of the non-market features, including the issues about industrial policies, intellectual property protections and the state-owned enterprises. Even if China has made significant progress in reforming the economy, these issues are still under current debates between China and the EU.

4 The USA is a Crucial Variable for China–EU Trade Relationship, Particularly in the Trade War Era

The analysis of trade relationship between the EU and China needs to be put in the context of global trade environment. In particular, the USA, as the largest trading partner for both blocs, is an inevitable influencing factor for both China and the EU. In recent years, the China–US relationship has deteriorated rapidly from trade, investment to financial aspects, posing challenges for the EU in the globalized world.

The USA launched the trade war against China in 2018, which ended up with both countries slapping several layers of tariffs on each other. Against the backdrop, the role of the EU is becoming sensitive as it can hardly isolate itself completely from the conflicts of the two countries.

A trade war can barely have any winner in absolute terms, as free trade is generally beneficial for global growth as it offered the opportunity to efficiently reallocate resources at the global stage. However, the trade war, featured by additional tariffs, not only added cost to bilateral trade between China and the USA, but also affected the business world's confidence in global supply chain, potentially influencing the efficient allocation of global resources. As such, the EU companies may also need to rethink about their reallocation of business in the new uncertain environment.

The US–China conflict has heterogeneous effects across nations and industries, and there could be some relatively worse or better outcomes depending on the country and sector. On the bright side, for the EU, the conflict between China and the USA could offer some room for its corporates to fill in the gap left by either the American or Chinese exporters. To quantify the substitution benefits for European companies, we calculate the product overlap between EU and Chinese exports to the US market, and the EU and US exports to China's market, respectively, and then confine the overlapping product list to the targeted products during the first two rounds of the trade war. The results are as follows.

In the first round of the crossfire, both the USA and China targeted $50 billion products on each other. One of the biggest potential winners (with potential gains bigger than $10 billion) is the EU's aircraft and spacecraft and motor vehicles sectors in the Chinese market and the general-purpose machinery sectors in the US market. While both countries target the exact amount of imports, the potential sector gains are higher in the US market ($39 billion) than China's market ($30 billion).

In the second round of the crossfire, the USA has escalated its tariff list to $200 billion imported products from China. This again gives the European firms more room to access to the US market, with the possible maximum gains reaching $97.6 billion (or 50% of total). The benefits will now be extended to some of China's key exporting field such as office, accounting and computing machinery as well as furniture, both of which are already the EU's top ten exports to the USA and have potential to substitute China's exports. That said, the two sectors are restricted by the EU's production capacity and difficult to completely replace the related products, as China's exports to the USA on these products are more than seven times as large as the EU's current exports. Therefore, it will have to take longer time for the EU to accumulate more capacity to take place of Chinese producers.[5] In China's market, European gains will be extended to medical and precision products and basic chemicals, and to lesser extent, to general-purpose machinery.

The above arguments seemed to relatively benefit the EU, but it is not the only possible scenario. At the time when the authors write this book, the USA and China have reached a phase-one trade deal, featuring Chinese massive imports from the USA. A large volume of purchase from the USA is clearly not fully market driven and is likely to divert China's planned imports from the EU to the USA. The distortion from the US–China trade deal could hamper the EU's capability to export to Chinese market.

Also, the EU's benefit depends on its policy stance between China and the USA. So far, the EU remains neutral on the US–China trade war instead of following the USA by imposing import tariffs on China. If the EU finally forced to pick the US side and impose its own import tariffs on China, China will probably also retaliate against EU companies, further weakening the EU's role in the global market.

As such, given the current situation, a neutral stance pushing for multilateral solution to the US–China relationship is the best choice for the EU. In other words, maintaining the role of the WTO is at the EU's interest to guarantee the efficient allocation of resources. This, however, requires necessary reform to accommodate the new trade environment to address the conflicts between the USA and China.

Last but not the least, it should also be noted, though, that the potential gains to be made are bigger in the USA (beyond the already larger export revenues) largely due to more tariffs imposed from the US side. In other words, beyond Europe's historical alliance with the USA which will keep EU policies closer to the USA than they would ever be with China, the EU also has much more to fear from losing the US market than losing that of China. If the China–US relationship continued deteriorating and

[5] In the calculation of the maximum gains, we take into consideration the capacity restrictions by imposing the maximum gains as three times as large as the current EU companies' exports.

the EU has to make a choice between the two, it may finally push the EU to favor the US trade policy despite the current complementarity between China and the EU.

5 Interest Conflicts Within the EU Facing Trade with China

As it is important for the EU to push for a new relationship with China, a critical issue for the EU to address at home is the conflicting interest across its member states.

First, not every country is benefiting from the accelerating trade relationship with China. The two EU countries with the highest China trade share (% GDP) are Czech and Netherlands, for whom trading with China comprised more than 17% of their total extra-EU trade in 2017. Czech also stands out as having the highest trade dependency on China, i.e., China accounts for 29.3% of its total extra-EU trade in 2018, especially on the export side. For Netherlands, the situation might be more complicated, as many products entering Netherlands could ultimately go to the other countries, causing overestimation of the trade interest associated with Netherland Slovakia stands as the third in the list, and Germany ranks the fourth (5.9%), signaling their strong linkages via trading with China. For Germany, dependence on China within the trade sphere accounted for 19.4% of its total extra-EU trade.

However, there are also other countries whose trade relationship is less important. For France, its dependence on trading with China is much smaller and only accounts for 3.0% of its GDP, though it has still high dependence on China in terms of the extra-EU trade relationship (Chart 10). The Luxembourg emerges as the country with the least China trade share as a percentage of GDP, which is only 1.24% (Chart 11). That said, one percentage of GDP is still not a negligible figure for any country in need of long-term economic growth.

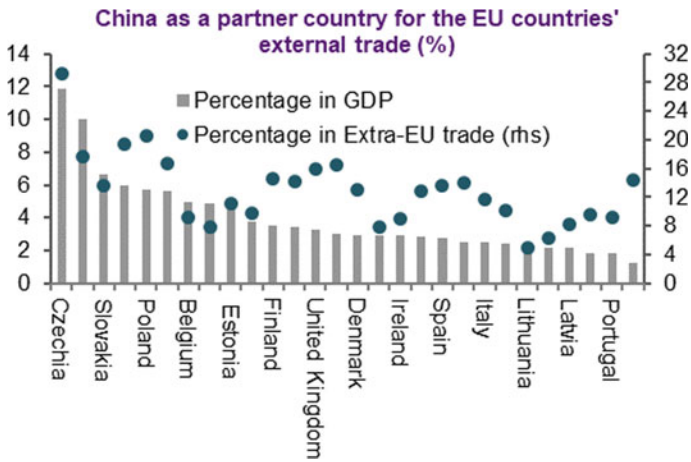


Chart 10 *Source* Natixis

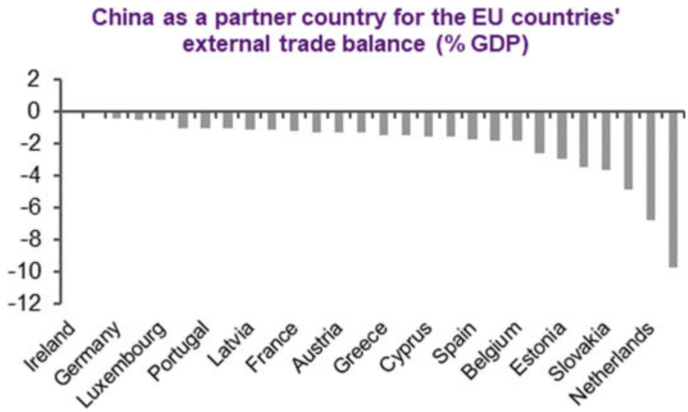


Chart 11 *Source* Natixis

Another important factor influencing China–EU trade relationship is the unbalanced trade pattern, namely the EU's trade deficit vis-à-vis China. The situation is particularly worrying for Poland, Netherlands and Czechia who have the largest trade deficit with China within the EU in 2018, constituting, respectively, −4.9%, −6.8% and −9.7% of their GDP. Overall, most of the EU countries are facing higher import competition as they trade with China. While Germany has been generally perceived as the EU's manufacturing center, and indeed showed surplus position with China in the Eurostat database, Garcia-Herrero et al. (2020) had offered a detailed description and showed that it also has de facto trade deficit with China. As such, the positions regarding its trade deficit with China are more consistent within the EU.

6 Conclusion

The EU–China relationship is critical for the world economy. Even if the global trade situation has been worrying over the past years with increasing concerns over protectionism and unilateralism, the interaction between China and the EU still moves on. This is particularly shown after the outbreak of the COVID-19 when China's market share continued increasing. During the pandemic, not only did China increased its exports in the field of the medical resources, but also its electronic equipment further boosted by the global supply chain. This looks a reversion of what has happened since the US–China trade war when a bunch of tariffs were imposed on China's exports and also imports. Although the global uncertain environment is not easy to dissipate because of the intrinsic competition vis-à-vis China, the cost of further decoupling will only become bigger as the uncertain drags on.

EU-China economic relations were boosted in December 2020 thanks to the agreement on the EU-China Comprehensive Investment agreement (CAI). This agreement was meant to be ratified within two years of the signature by the European Parliament, from the EU side. Since then, lack of conviction about the benefits of the agreement has emerged in Europe. Also, heightened tensions on human right issues ending in sanctions and countersanctions have led to the European Parliament suspending the discussion of CAI for the foreseeable future. The jury is still out as to whether EU-China will engage in more institutionalized trade and investment relations in the future.

Down the road, cross-reliance in goods trade will continue to mark the relationship between China and the EU. What will be more interesting for us to observe is the evolvement of the competition between the two blocs in the current uncertain environment, especially as regards how the two can adapt themselves to the new world economic order and to what extent this will reshape the global economy.

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Theoretical Overview of China and BRI Relations

Narrating Models of Development—China and the EU Between "Strategic Modernizer" and "Rules-Based Transformer"

Constantin Holzer and Matthias Hackler

Abstract The PRC and the EU are two of the world's largest economic superpowers, with their mutual relationship and the balance of power between them having a profound impact on regional and global economic prosperity. In recent years, China has become increasingly assertive on the global arena, with initiatives such as the BRI, CM2025 and the founding of the AIIB promising a new age of Chinese global economic dominance. These initiatives are not only highly relevant for China-EU relations, but do also shape relations between EU member states, especially between Western Europe with its Eastern and Southeast European neighbours, but also between the EU and third countries, particularly on the African continent. This chapter presents a comparative inquiry into how different identity narratives in China and the EU are at the core of explaining strategic differences in economic diplomacy, both towards one another and third countries. The different identity models we have assigned to the EU and China, respectively, are the "rule-based transformer" versus the "strategic modernizer". We argue that scope and limits of both China's and the EU's economic ambition and priorities can be understood from the identity narratives that are underpinning their different systems. The conditions for which potential "reciprocity" and a "win–win" cooperation in China–EU relations will be explored via these different systems, and whether diverging identity narratives necessarily will set the EU and China on a path of estrangement and disengagement.

Keywords Belt and Road Initiative (BRI) · Chinese economic ambition · Reciprocity · Win–win cooperation · China–EU relations

1 Introduction

Business can be seen as a rules-based game, comprising elements of both cooperation and competition. In the context of the return of big-power rivalry and systemic competition in the twenty-first century, it is not clear yet who will be setting the rules

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Y.-C. Kim (ed.), *China and the Belt and Road Initiative*, Understanding China,
https://doi.org/10.1007/978-3-030-86122-3_2

of the game in the future. Looking at "development narratives" in conjunction with their concrete embodiment in geo-economic initiatives such as the Belt and Road Initiative (BRI) and the EU Connectivity Strategy for Asia, this chapter analyses how China and the EU are seeking to shape the rules and realities of international business in the twenty-first century, what interests they pursue and what principles and values they stand for. For this purpose, the authors characterize China and the EU as "strategic modernizer" and "rules-based transformer", respectively.

Development narratives are important sense-making tools for political actors. With the gradual erosion of the post-Cold War economic order and the failing of the global institutional convergence towards liberal democracy and market economy associated with the "end of history" narrative, the dominance of Western economic and political narratives was increasingly being called into question by regional challengers with global aspirations such as China, especially after the global financial crisis 2008. This means that while the importance of economic growth, business and prosperity remains undisputed in the twenty-first century, the world is entering an era in which the rules of the game that govern international business are going to be subject to increasing political bickering and uncertainty—accompanied by the resurgence of alternative models of governance and the possibility of ever stronger politicization of business and trade by the world's largest economies.[1]

Underpinned by its rising financial and economic power, China announced the BRI in 2013 as its new flagship model for foreign economic engagement, further linking its domestic economy with the world market and focusing thematically on infrastructure connectivity, trade and investment facilitation. Five years later, the EU introduced a blueprint to drive forward its own idea of connectivity in Eurasia, but with financial, social and ecological sustainability as the centrepiece. Although representing different models, China's BRI and the EU Connectivity Strategy serve as prime examples of development narratives aimed at promoting connectivity and business between Europe and Asia. It has been documented that despite the differences with regard to their outlook on international business—while China's BRI has opted for a strong state-centred approach that favours Chinese companies and engages with host countries on a bilateral basis, the EU prefers a market-based and multilateral approach to connectivity and emphasizes rules-based, comprehensive and sustainable connectivity—the dynamic interplay between their development narratives is going to shape the future of EU–China and Europe–Asia business relations in the twenty-first century (Holzer 2020; Holzer and Hackler 2020).

Trade relations between China and the EU have developed well over the past decades, with the EU being China's most important trading partner, and China the EU's second largest (European Commission 2020). But problems regarding reciprocal market access, the role of state subsidies, the politicization of trade and investment, technology transfer and intellectual property, as well as increased mistrust due to the difference in political systems keep creating ongoing friction between

[1] The instrumentalization of trade in the US–China tech rivalry, China's tariff war on Australian goods 2020, or the OECD countries' economic sanctions against Russia since 2014 are just a few example of the return of politics into business.

partners. China has agreed to limited signs of further opening up its economy to foreign investments, although on its own terms, and recently mainly focused on the financial and automobile sectors. But much remains to be done if China and the EU are serious about bringing to a successful conclusion the negotiations about a long-awaited Comprehensive Agreement on Investment (CAI) between them.

The main aim of this chapter is to shine a light on the different development narratives that are instrumental to understanding China and the EU's foreign economic engagement and to thereby help interpret why tensions about the model of economic development and international business, and the rules by which they are governed, are going to persist between both partners in the future. The instrumentalization of business and commerce for political gains is a crude reality in the twenty-first century. By contributing to awareness between the EU and China, this chapter hopes to be helpful for decision-makers in making the right choices that promote stability, cooperation and shared prosperity between countries.

2 Development Narratives About China and the EU and Their Role in the World

The study of narratives has recently attracted increased interest in several academic fields (Miskimmon et al. 2013, 2017; De Graaf et al. 2016). Political actors not only use them to form and maintain their identity and ideational role in the world, they also use narratives to cajole, threaten or force other actors into doing things that are not always in their interests (Berenskoetter 2014; Roselle et al. 2014; Bially Mattern 2005). More crucially, great powers can use narratives to create and maintain influence in the international system and shape the rules of the system itself. In a nutshell, narratives "are a means for political actors to construct a shared meaning of the past, present, and future of international politics to shape the behaviour of domestic and international actors" (Miskimmon et al. 2013: 2).

China and the EU, including its predecessors, have sought to create a unifying identity narrative for themselves since the 1950s, which provided legitimation of their development path, their purpose and role vis-à-vis other actors. After the end of the Cold War and with the incipient changes of the international system, both China and the EU entered a period of profound transformation. In the wake of the post-1989 Tiananmen isolation and the gradual opening up of its economy, China was to witness an era of spectacular economic growth, which came together with its growing international profile. Europe, on the other hand, was set to meet new opportunities of deepened political and economic integration and to engage with the newly independent post-Soviet space in Central Europe. During that time, China and the newly formed EU faced common challenges of defining their role and identity in the post-Cold War era.

2.1 Strategic Modernizer: Background and Implications of China's Development Narrative

China's difficult transition from empire to nation state and its arduous path towards sovereignty culminated in the founding of the People's Republic of China in 1949, when national independence was restored under the leadership of the Chinese Communist Party. Since then, the Chinese government embarked on an exploration to find a "path of socialist modernization that conforms to China's conditions and the trend of the times", which resulted in its "path of socialism with Chinese characteristics" 中国特色社会主义 (State Council Information Office 2011).

As China's economic importance started to grow for the rest of the world from the beginning of the 1990s, and especially after the country's accession to the WTO in 2001, Chinese intellectuals started to pay closer attention to the question of China's identity in a changing global environment. A multitude of interlinked identity descriptions emerged over time, which centred around the themes of China's development country status and the country's growing economic weight. The "Rising China" 中国崛起 narrative was first popularized by Chinese scholar Yan Xuetong, who in a series of articles articulated his idea of China's post-Cold War development. While different variations of the narrative exist, the basic plot revolves around a China that can prosper under a favourable international security environment with no direct threat of war. According to the narrative, China's rise will contribute to regional peace and stability and will be in line with the development of "world civilization". Moreover, against the backdrop of China's international decline during the "century of humiliation" 百年国耻, a period between the Opium Wars and the end of the civil war (1839–1949) during which China experienced Western domination and domestic upheaval, China's rise will also re-establish its "international equal status" and "due respect". Yan predicts that the process of China's rise will be different from those of other great powers' in the past, because China will not dominate other countries or seek expansion (Yan 1995, 1997a, b, 1998).

In 2003, the Chinese government adopted the "Rising China" narrative as the main theme of its external communication efforts. Zheng Bijian, former Vice-President of the Party School of the Central Committee of the Chinese Communist Party (CCP) 中共中央党校, used the term "Peaceful Rise of China" 中国和平崛起 for the first time in a speech at the 2003 Bo'ao Forum for Asia (Zheng 2003). In 2004, the term "Peaceful Rise of China" was changed to "Peaceful Development of China" 中国和平发展 over fears the former term could be seen as too assertive (Sun et al 2015). "Peaceful Development" more strongly emphasizes the economic results of China's development model, which are based on sustained rates of high economic growth over the past 40 years, public infrastructure investments with targeted state subsidies and its success in ending absolute poverty for hundreds of millions of Chinese farmers. The method behind these results is the fusion of the market mechanism and targeted opening of the economy to foreign capital and trade as a means to strengthen and enrichen the nation with a state-heavy regulatory approach under the firm leadership of the Chinese Communist Party. This combination also became the key characteristic of "Socialism with Chinese Characteristics" since the era of Deng Xiaoping 邓小平.

The central importance of the "Peaceful Rise" narrative is also reflected in several key documents and was included in the Chinese constitution. Since its official inception into party speech, especially after including it into the 17th Party Congress report 2007, "China's Peaceful Development" has become one of China's most influential identity narratives both for internal and external communication. In a discussion about the implications of the 18th Party Congress report in 2012 on China's diplomacy, a high-ranking diplomat described the "Peaceful Development" as one of the basic requirements for China "to win new victories in advancing socialism with Chinese characteristics under new circumstances" (Yang 2013).

The "Peaceful Development" narrative describes a tangible story of China's rise to the world's second-largest economy and beyond. Moreover, the narrative also signals to international audiences that China seeks to provide stability in an unstable world. However, China's multiple identities which are embedded in the "Peaceful Development" narrative, such as China as a developing country, as a provider of peace and international justice, also generate tensions. Pu notes that the rapid growth of China's international power and the dramatic changes in its international environment have "created a growing inconsistency between China's traditional diplomatic narrative and its newly acquired international status" (Pu 2017: 144).

Over the years, additional concepts which usually indirectly refer to "Peaceful Rise" were added to this grand narrative, particularly China's vision of a Harmonious World 和谐世界, the China Dream 中国梦, as well as the Community of Shared Future for Mankind 人类命运共同体. Recent additions to China's identity narrative also emphasize the country's growing international importance and influence and highlight its role as a builder of world peace, a contributor to global development and a defender of the free trade system and the international order. However, as China's global economic and political influence surges, there is also more potential for conflict. As could be observed, China's identity narrative underwent a shift under the leadership of President Xi Jinping 习近平 since 2012, with China presenting itself as a confident leader of the international system and an international rule-maker rather than a rule-taker. President Xi Jinping's speech at Davos in 2017 was seen by many observers of international affairs as China asserting its leadership role in economic globalization (Barkin and Piper 2017). His 2017 report to the 19th National Congress of the Chinese Communist Party strongly reflects a general ambition by envisioning China to be "moving closer to the centre stage" 走进世界舞台中央 and "making greater contributions to mankind" (Xi 2017b).

In summary, China's development narrative encompasses the selective accentuation of historic experiences such as national humiliation by foreign powers, the economic miracle under the "Reform and Opening Up" 改革开放 period after 1978 under Deng Xiaoping and China's more assertive foreign policy and economic engagement under Xi Jinping. What can be synthesized from them, as well as from China's path of "Socialism with Chinese Characteristics" and the "Peaceful Development" narrative, is the imperative of strategic modernization and increasing national strength 强国富民 both economic, political and cultural, steered by a dirigiste central leadership, as a way of securing China's stability at home and prosperity in the world.

For this reason, the authors termed China's development narrative the "strategic modernizer".

2.2 *Rules-Based Transformer: Europe's Peace Through Integration Narrative*

After the end of World War 2 and at the onset of European integration, successive European leaderships have sought to create an ideational purpose for the European project, which transcends the reconstruction of post-war Europe and the prevention of new animosity between France and Germany. The search for a common European narrative is not only about deepening the understanding of the complexity of European history, but also about promoting the legitimacy for further European integration and bolstering the EU's diplomatic status as a unified actor, enabling the EU to play a greater role in international affairs. In short, the EU's attempts to present the European project as a "humanistic enterprise" based on shared values have a functional utility in the sense that it is a tool for bringing the member states together and promoting the political legitimacy of the EU, domestically and abroad (Lähdesmäki 2017: 58).

The narrative of European integration as described in the preambles of the Treaties has developed over time and undergone several revisions in connection with the accession of new member states and the establishment of institutions. One main rationale stands out, originating in the 1950 Schuman Declaration and being incorporated into the Treaty establishing the European Coal and Steel Community as well as the Treaties of Rome and Brussels. It points to the importance for shelving rivalries and the idea of establishing peace among former enemies through economic cooperation. The narrative describes the "century-long rivalry" between European nations, which had led to bloody conflicts and war. In order to avoid future conflict, the European nations took responsibility for the future and merged basic interests, unified markets and established solidarity in production, so as to "change the destinies of those regions, which have long been devoted to the manufacture of munitions of war" and "contributing to raising living standards and to promoting peaceful achievements" for Europeans and other countries. (European Union 2020; Publications Office of the European Union 1951, 1957, 1967).

From the establishment of the EU with the Maastricht Treaty in 1993, the narrative shifted to emphasize the "historic importance of ending the division of the European continent", which has led to "the need to create firm bases for the construction of future Europe" (Publications Office of the European Union 2012: 15). Henceforth, principles, such as liberty, democracy, respect for human rights and fundamental freedoms and the rule of law, are providing the basis for the construction of a future Europe. An important change in the development narrative since the Maastricht Treaty is the emphasis on the EU's role as an international actor and its ambition to recreate the European perspective of peaceful integration outside of Europe. For the

EU, its values are universal, and they therefore also define a social purpose for the EU, which is the promotion of these values in the world.

Since its creation, the European Union and its predecessors have attracted a high degree of scholarly attention resulting in a variety of different narratives about the European integration and the EU as an actor in international affairs.[2] Perhaps, the most influential and orthodox EU narrative is about European "progressive integration", which describes the "gradual erosion of national sovereignty and the evolution of new, post-national institutions at European level" and the inevitability of this process (Gilbert 2008). Based on positive evaluations of European integration, academic discussion about the international role and identity of the EU often includes the ascription of certain capabilities. Two influential narratives about the EU's role in the world emerged in the academic community, referring to the EU as a "civilian power" and a "normative power".

The earliest description of the EU's as a "civilian power" was introduced by François Duchêne in the early 1970s (Duchêne 1972, 1973). The "civilian power" narrative became influential during the time of superpower détente, because it offered an alternative to the hard power reality of the Cold War. According to that narrative, Europe became economically prosperous but did not need to rely on military power in order to reach its position, with its influence being based on economic resources, production and trade. It describes Europe as a force to share civilian and democratic standards and promote its internal values in the world. This non-military power enabled Europe to put stronger emphasis on areas such as economic and democratic political leadership.

The EU as a "normative power" is the second influential narrative about the EU as an international actor and builds on the idea of "civilian power". This concept, as put forward by Ian Manners in 2002, focuses on "normative power of an ideational nature", which is the "ability to shape conceptions of 'normal' in international relations", thereby domesticating international politics according to EU standards (Manners 2002). Manner describes the concept as

> a narrative about the EU's puny size and capabilities at the end of the cold war, and how these were gradually enlarged and strengthened throughout the 1990s. … [I]t tells a story about how liberal democracy succeeded in bringing about the end of the cold war, but failed to bring peace to the immediate post-cold war period. … [T]he normative power myth performs an important role in the make-up of the EU as a global actor seeking to transform itself in anticipation of the more complex, increasingly globalized 21st century. (Manners 2010: 77)

Both narratives influenced European self-perception and its international identity and implicitly informed EU policy documents, such as the 2003 European Security Strategy, which highlights the EU's "civility" by pointing out that Europe is "committed to dealing peacefully with disputes" and that by progressively spreading its values authoritarian regimes could be turned into "secure, stable and dynamic

[2] Manners and Murray have identified several integration narratives and myths about the EU in world politics, such as the old narrative of peace and post-war reconstruction, a new narrative about human rights and democracy, an economic integration narrative, social narrative, narrative of green Europe and a narrative of a global Europe (Manners and Murray 2016).

Table 1 Different narratives of post-Cold War international development in China and the EU

	Strategic modernizer	Rules-based transformer
Central maxim	Economic reform under the central leadership of the Communist Party	Rule of law and separation of powers protect citizens and limit state power
Characteristics	State-led, pragmatic, and strong interest-based policy	Law-based (the Acquis for the EU), interest-based and value-based policy necessary for legitimacy, multilateral approach and consent driven
Strengths	Short-term resource mobilization and long-term strategic outlook	Political stability, economic–ecological sustainability, especially during leadership change, democratic legitimacy
Weaknesses	Prone to factionalism and inner-party rivalry, especially before leadership change, weak performance basic rights, civil rights dependent on the current political climate	Electoral short termism, lack of strategic ambition, inertia due to unanimity rule

democracies" (Council of the European Union 2003: 1). The publication of the 2016 European Union Global Strategy, however, which states that "the idea that Europe is an exclusively "civilian power" does not do justice to an evolving reality", indicates a departure from the pure civilian understanding of Europe's identity (European External Action Service 2016: 4). Moreover, the new European Commission under the presidency of Ursula von der Leyen seeks to bolster European strategic autonomy and geopolitical leadership within a multilateral rules-based global order (von der Leyen 2019).

During its early beginnings in the Treaty of Rome 1957, as well as since the inception of the EU with the Maastricht Treaty 1993 and beyond, the central development maxim of the European Community has been rules-based decision-making based on democratic principles laid down in its Treaties (the Acquis Communautaire). The EU is therefore first and foremost a union of Treaties. Development has to happen in a rules-based manner. For this reason, the authors characterize the EU as "rules-based transformer" (Table 1).

3 Strategic Modernizer Versus Rules-Based Transformer Seen in the Context of China's Silk Road Initiative and the EU's Connectivity Strategy

As mentioned in the previous section, after China's party and state leadership change in China 2012–2013 and the new presidency of Xi Jinping, China's way of external communication started to change. It not only sought to improve or defend its own image in the world, but also started to promote its development model globally.

This gradual shift towards more self-confidence in dealing with perceived political–ideational and economic competition was underpinned by a rising discussion within China about the possible superiority or uniqueness of China's political and economic system, exemplified by the immensely influential popular science book *China Shakes the World: The Rise of a "Civilizational State"* written by Fudan University Professor Zhang (2011). Zhang suggests that China should not follow the Western path of development and contemplates the benefits of China's model of development also called the "China model" 中国模式, which he characterized by a fusion of authoritarian one-party state and state-driven capitalism.

Economically, this was accompanied by the launch of the Belt and Road Initiative (BRI) as China's signature foreign economic diplomacy initiative in 2013, which uses vast infrastructure projects and investments in foreign transport, energy and digital infrastructure, as well as high-tech companies, as means to secure China's long-term strategic interests. These are stable and open international trade routes, steady supply of raw materials and energy, access to foreign markets for Chinese goods, investment and technology. Special attention was given in this context to Chinese state-led investment in foreign rail, telecommunications and port facilities.

The BRI initiative has a land-based, the Silk Road Economic Belt, and a maritime dimension, the Twenty-First-Century Maritime Silk Road, together forming the "Belt and Road". The BRI is an ambitious blueprint to create connectivity in areas such as policy coordination, unimpeded trade, financial integration and people-to-people diplomacy, but with infrastructure connectivity as the focal point. The plan's main focus is to increase connectivity across the Eurasian continent including Africa (State Council of the People's Republic of China 2015). Over the last years, the BRI has become the main vehicle through which China communicates its model of development and cooperation to the world.

When presenting the BRI narrative to an audience, Chinese officials often begin with a reminiscence of positive achievements of the ancient Silk Road (~130 B.C.—1453 A.D.), which "opened windows of friendly engagement among nations, adding a splendid chapter to the history of human progress" (Xi 2017a). Following this ancient tale, the basic framework of the modern Silk Road narrative begins with describing a "new era marked by the theme of peace, development, cooperation and mutual benefit". In this new era, "[c]omplex and and profound changes are taking place", such as the impact of the financial crisis, slow recovery and major adjustments of the international trade and investment landscape, which create challenges for countries to further develop (State Council of the People's Republic of China 2015). In order to achieve global growth, the world needs new drivers, and China has created a new impetus to promote international business and shared prosperity through the establishment of the BRI. The initiative will "enable China to further expand and deepen its (economic) opening up", which will lead to more mutually beneficial cooperation. At the same time, China seeks to shoulder "more responsibilities and obligations within its capabilities", in order to make "greater contributions to the peace and development of mankind". The initiative embraces principles such as openness for cooperation, harmony and inclusivity, market operations and mutual benefits, while at the same time declaring not to interfere with participant countries' internal affairs and to respect their sovereignty. On this basis, China aims to achieve intermediate goals, such as enhanced policy coordination, infrastructure connectivity, investment and trade cooperation, financial integration and public diplomacy, in order to realize the ultimate goals of peace and harmony, prosperity and shared development, openness, friendship and a better future (Xi 2017a).

While no major changes were made to the basic plot of the Silk Road narrative over the years, there were adjustments regarding China's international roles, actions and goals. Two events are important in this context: first, international criticism of China's diplomacy and infrastructure loan practices culminated in 2017 and led to claims of unsustainability of certain BRI-funded projects. China was accused of pursuing a form of infrastructure lending, which would not take into consideration debtors' ability to repay the loans, thereby making them "vulnerable to China's influence" or risking confiscation of sovereign assets such as port facilities. This form of lending was ultimately termed "debt-trap diplomacy" (Chellaney 2017). What is more, despite claims of the BRI being open to the world and based on win–win cooperation for mutual benefit, a study has revealed that foreign participation in BRI projects is quite low, especially when put in global comparison with projects financed by multilateral donor agencies. Foreign companies and technologies are usually confined to niche roles in projects mainly led by Chinese state-owned companies and financed by Chinese state-owned banks (ECCC 2020: 6).

The second event is China's aspiration to become a role model for other developing countries, epitomized by the 2017 CCP Party Congress report by state and party leader Xi Jinping, where it was claimed that China's example of development "offers a new option for other countries and nations who want to speed up their development while preserving their independence" (Xi 2017). China thereby sees itself as a successful model of development that is willing to share its experience with other countries. After successfully navigating through its own domestic reform and development, China now stands at a "new historical starting point", presenting itself as an invigorated actor, who actively seeks to "make constructive contributions to the reform of the current global governance system and to economic globalization" (Xi 2019). This more assertive role in both international development and multilateral institutions such as the UN is far more pronounced today and highlights the malleability of China's development narrative in accordance with its interests and strategic necessities of a given time.

The context of the EU's development narrative is markedly different from that of China. In the wake of the global financial crisis and the European debt crisis, the EU has striven to redefine its external image and international role. In 2012, the European Union External Action Service (EEAS) started to re-evaluate the EU's strategic environment and envisioned global role. This process eventually led to the promulgation of the EU Global Strategy (EUGS) in 2016, an ambitious blueprint for how the EU sees the world and how it wants to engage with it (Smith 2017: 508–9). The EU perceives the world as "more connected, contested and complex". It seeks to promote European values and aims to create peace, prosperity, resilient democracies and a rules-based global order. In order to achieve these goals, the EU will engage with the world and, together with partners and like-minded countries, participate in the global system to co-shape its rules (European External Action Service 2016: 17–8). The Global Strategy promises to scale up European economic diplomacy with Asia primarily through the pursuit of FTAs with strategic partners, such as India, Japan and ASEAN, and a deepening of trade and investment relations with China based on a level-playing field (European External Action Service 2016: 37–8). The EUGS thus expresses a European desire to assume more international responsibility and act in compliance with international rules to shape global development. The wake-up calls from 2016, notably the outcome of the Brexit vote and the election of Donald Trump as President, further accelerated the EU's aspirations towards strengthening its international profile and working towards "strategic autonomy" in the global arena.

Although the Global Strategy did identify general trends such as competition and complexity in the global environment, it does not particularly address the international business dimension other than stating that the EU wants to "engage with others" and pursue a "coherent approach" vis-à-vis China's BRI by utilizing the EU–China Connectivity Platform as well as regional cooperation with ASEM and ASEAN (European External Action Service 2016: 37–8). The pledge to act more coherently has to be seen against the background of a clear inability on the side of EU member states to form a united position and act in unison with EU institutions with regard to the Chinese connectivity plan. The unorganized accession of several EU member states to the AIIB in 2015–2016 and the varying reception of BRI projects across Europe are cases in point and necessitated the creation of a common approach. After 2017, Europeans grew warier of the BRI which was described as running "counter to the EU agenda of liberalizing trade and pushes the balance of power in favour of subsidized Chinese companies". Regarding China's relationship with individual member states, there were warnings about "unequal distribution of power which China exploits" (Heide et al. 2018), especially in the context of Southern and Eastern European countries and the 16 + 1 Initiative (now 17 + 1).

With the aim to fully addressing Europe–Asia connectivity on its own terms, the EU announced its connectivity strategy—*Connecting Europe and Asia—Building blocks for an EU Strategy*, in 2018. The Strategy emphasizes the facilitation of trade and sustainable, comprehensive and rules-based connectivity investments and also directly addresses BRI-related issues which are commonly seen as problematic, such as financial sustainability and transparency. As much as the Connectivity Strategy is a reaction to the BRI, it also provides an updated and unified narrative framework for the promotion of connectivity projects and of the EU as a rules-based transformer, contrasting with China's state-led and more unilateral approach.[3]

The underlying narrative of the EU Connectivity Strategy begins with an acknowledgement of the "global significance" of the relationship between the EU and Asia, relating to the importance of economic cooperation and trade. Europe and Asia have the potential to form "engines of a more cooperative approach to world politics,

[3] Already existing and recently introduced connectivity-related EU initiatives include, among others, the Trans-European Transport Network, several infrastructure investment funds under the Commission, the Development Cooperation Instrument, the Asia Investment Facility of the European Investment Bank.

global stability and regional economic prosperity". However, to tap into this potential and "unlock opportunities in the global economy", Asia and Europe need not only to invest in connectivity infrastructure, but also establish "[c]onsistent and aligned rules, standards or practices to promote market access" and build bridges across the "very diverse countries in terms of economic model and level of development" in the Asian region. Based on the positive experience of economic integration in the EU's own internal market, which successfully created rules-based connectivity and competition, the EU will contribute to physical infrastructure, promote common rules and standards through cooperation with partners and address investment gaps, with the aim of promoting sustainable, comprehensive and rules-based connectivity on a global level (European Commission 2018).

The EU Connectivity Strategy for Asia sets a clear baseline for future connectivity partnerships with third countries and their initiatives, particularly with China's BRI. Former Vice-President European Commission Vice Jyrki Katainen stated that the success of connectivity hinges on the adherence to principles such as openness, transparency and sustainability (Delegation of the European Union to China 2017). While the EU's narrative does not evoke magnificent historical imaginaries, it points to the historical experience of European integration and the EU's common market "which has led to increased productivity and competitiveness" in a culturally, linguistically and historically highly diverse region. The Connectivity Strategy and the standards it convey are also intended to be a source of inspiration for other countries and regions. Moreover, by promoting "transparency and good governance", the European way of connectivity can also be regarded as a catalyst for positive sociopolitical transformations within participating countries. Combining infrastructure investments and a shared approach to the creation of norms and standards, the Connectivity Strategy reflects the European aspiration of leading the world by its normative example and concrete action.

4 The Impact of the "Strategic Modernizer" and "Rules-Based Transformer" Narratives on EU–China Business Relations Today and in the Future

China has a coordinated, interest-oriented and pragmatist streak in its foreign economic engagement. Business relations with third countries including market access are heavily regulated in the name of protecting national interests and subject to political approval by China's party leadership. Seeing its economic and geopolitical weight relative to other major economies increase further, China will continue to strategically politicize international business relations in the future. Its unilateral trade measures against Australia in 2020, punishing it for political disobedience, notwithstanding the fact that the two countries have signed a free trade agreement, are a case in point. This raises the question whether China as "strategic modernizer" will integrate into the current international system and to what extent the relationship with the "rules-based transformer" EU will be marked by competition or cooperation? In its 2019 report *The Belt and Road Initiative Progress, Contributions and Prospects,* China states that with the help of the BRI, it aspires to build a "new model of international relations" to substitute for the post-45 international order (Office of the Leading Group for Promoting the Belt and Road Initiative 2019). In this new "multipolar" world order, the USA would lose its hegemonic position in politics and business, and Beijing would have a bigger role as rule-maker in international affairs and multilateral institutions. This would allow China to promote a model of international development that focuses more on national sovereignty and economic growth without the politicization of human rights issues and Western standards of good governance. The consequences of such a geopolitical tectonic shift on EU–China business relations would be significant, requiring the EU to recalibrate between an interest-based and a value-based foreign policy on the one hand and between competing global powers on the other hand. It is clear for China and the USA that trade measures and market access became tools in a political game for economic and geopolitical supremacy. But how does this train of thought match with the EU as rules-based transformer? The EU as a global champion of free trade has tried to present itself as the guardian of a multilateral, procedural and rules-based international order and has mostly been reluctant politicize trade to achieve geostrategic supremacy. The EU will have to decide whether it will continue with the current course of promoting multilateralism and rules-based connectivity in disregard of the geopolitical dimension, or whether it decides to relearn "to speak the language of power" as EU Minister of Foreign Affairs Josep Borrell said in a speech in August 2020. Despite EU President von der Leyen's announcement of a geopolitical Commission and French President Macron's plea for strategic autonomy from the USA, the EU is still highly divided on economic and political key issues, and it is highly uncertain whether the EU is able and willing to transform itself from a "Union of shared Treaties" to a "Union of shared interests".

What will the future hold for EU–China business relations in a post-COVID world from 2021 onwards? China is seeking to reduce its dependence on foreign technology and overseas markets under the "Dual Circulation" model and aims at a rebalancing between its domestic economy and the international economy. This inward-looking approach will not mean that China is going to close its doors to foreign investors and imports. The recent opening up of its automobile sector in 2019, the entering into force of the Foreign Investment Law in January 2020, as well as the subsequent opening of parts of the financial sector show that China is intent on continuing the path of economic reform, although on a selective basis and on its own terms, and not according to a rules-based and multilateral approach supported by the EU and the USA in accordance with WTO obligations. This basic direction is not going to change anytime soon as it is rooted in China's perceived core interests.

For foreign companies, this means that while Chinese regulatory requirements will continue to make market entry and business operation within its borders delicate and prone to political interference, there will be new opportunities across certain industries and market niches. Also, Beijing's high aspirations in domestic tech will create continuous demand for foreign technologies in the future, especially where supply by domestic Chinese companies falls short and is of lower quality. In other areas of high-tech manufacturing such as machinery, telecommunications or robotics to name a few, Chinese manufacturing, as outlined in strategies such as Made-in-China 2025 and China Standards 2035, is expected to be in direct competition with foreign companies from industrial nations such as Germany and South Korea.

Another important factor regarding the future of EU–China business relations is going to be the resilience and growth of supply chains. While long-term negotiations between China and the EU about the Comprehensive Agreement of Investment were shrouded in inertia, China scored a strategic victory with the successful conclusion of the Regional Comprehensive Economic Partnership (RCEP) in November 2020, a free trade agreement encompassing 15 Pacific nations, including China, South Korea, Japan, ten ASEAN nations as well as Australia and New Zealand, covering one-third of the world's economy. A separate free trade agreement between China, South Korea and Japan is planned as a follow-up to connect the three East Asian economies even closer. These agreements, together with the gradual integration of global supply chains into a Sinocentric economic orbit, could further weaken the US economic dominance in the region. The EU needs to more proactively promote itself as a partner and its Connectivity Strategy as a choice in the Asia Pacific region if it does not want to fade into insignificance.

The near future does not point towards a convergence of international business norms anytime soon. On the contrary, domestic institutional innovations such as China's Corporate Social Credit System and its distrusted entity list make it clear that foreign companies, if they wish to compete in the Chinese market, have to continue to adapt to China's local conditions and regulations. For the EU, it remains to be seen how it positions itself with regard to geopolitical issues between China and the USA, and whether an exclusively rules-based approach can be upheld. Only through commitment to a clear strategy can interest-based commercial intercourse and business between China, the EU and the larger Pacific region continue to thrive.

5 Conclusion

"Strategic modernizer" and "rules-based transformer" stand for two prominent models of international development in the twenty-first century that are reflective of China and the EU's historic experiences and geo-economic realities. A key difference between the strategic modernizer and the rules-based transformer seems to lie in their respective degree of autonomy. The rules-based transformer gives up a part of its autonomy or sovereignty for the greater common good by operating within the rules-based framework. The strategic modernizer instead reserves for itself the ability to break rules in the name of the common good through autonomous action.

China's state-led, pragmatist and developmentalist approach to international business, despite being difficult to emulate for other countries, has demonstrated stable economic performance over the past decades and offers attractive lessons for other countries, especially developing nations. Its unilateral approach to national interest does, however, also create frictions with other nations and may risk further escalation with regard to the US–China trade war. The EU's development narrative of economic liberalism and rules-based transformation, being instead guided by a shared set of democratic rules and norms, while still being the gold standard for successful regional economic integration, has lost some of its glitter during the past decade when compared to China. Open questions are whether the EU will be able to uphold its commitment to multilateralism and its open approach to business in the face of increased geopolitical rivalry and whether the EU and China will succeed in creating a level-playing field for its companies on which business relations can thrive.

In any case, the EU needs a shared strategic vision regarding how to promote the business interests of its companies in an increasingly geopolitical and fast-changing international environment. The EU position paper on China describing China as a partner for cooperation, strategic competitor and systemic rival sends a clear message, but it also raises questions about the feasibility and desirability of a tougher approach in a rules-based and liberal economic bloc. It remains to be seen whether a change in geo-economic realities can spark new transformative potential on the part of the EU and China, and whether, for the EU, rules-based multilateralism is a matter of principle or a matter of interest.

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Challenges and Opportunities in the EU-China Trade Relations

Rafael Leal-Arcas

Abstract This chapter analyses European Union-China trade relations in the context of the current negotiations for a new comprehensive framework agreement between the European Union (EU) and the People's Republic of China. China is a strong economic power with increasingly sophisticated production in its coastal regions and is attempting to establish itself as a gravity centre by concluding many bilateral free-trade agreements in the region. Although China has a strong hold in the Far East, there may be specific policy areas in which China's influence ends up being global. The chapter consolidates China's relations with the European Union, addressing the main arguments that were considered during the ratification process of the Treaty of Lisbon. It examines the mechanisms behind the initiative that provided for a permanent president of the European Council and a single foreign affairs post for the entire EU, which facilitated the EU's coherence in its external affairs. Moreover, the chapter concludes that the European Commission should negotiate the prospective Partnership and Cooperation Agreement between the EU and China more constructively, without patronizing, and instead accept China as an equal player in the current multipolar framework of global economic governance.

Keywords Chinese economic power · Bilateral free-trade · Treaty of Lisbon · Partnership and Cooperation Agreement

1 Introduction

The European Union-China relationship is one of the most important and least understood relationships in the world today. The previously existing cooperation between the Chinese and the Europeans has now been replaced by competition, with the emergence of new issues such as China's role in Africa, where the Chinese

An earlier version was published as "The EU and China in a new world order: Challenges ahead," The IUP Journal of International Relations, Vol. XIV, No. 1, 2020, pp. 39–58.

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Y.-C. Kim (ed.), *China and the Belt and Road Initiative*, Understanding China,
https://doi.org/10.1007/978-3-030-86122-3_3

unconditional aid policy in Africa has infuriated many European Union (EU) countries which consider Chinese intervention counterproductive to Europe's efforts to promote human rights, good governance, and environmental health in Africa. Mutual understanding is a pre-requisite for mutual trust. Therefore, this paper aims at understanding the potential of a trade partnership between the EU and China. As will be analyzed henceforth, there are many difficulties and differences between the EU and China in the trade field, and some of which raise serious concerns for the EU. This chapter raises various questions in this respect: Is the EU an attractive trade partner for China? Does the EU want cooperation with China? What can the EU expect from cooperation with China? What are the EU's priorities in its foreign trade policy? Which instruments can the EU use to engage China?

China is a strong economic power with increasingly sophisticated production in its coastal regions and is attempting to establish itself as a gravity center by concluding many bilateral free-trade agreements (FTAs) in the region.[1] Although China has a strong hold in the far east, there may be specific policy areas in which China's influence ends up being global.

The chapter is divided into six parts. After the introduction, Part 2 explains the steps taken for negotiating a new comprehensive framework agreement between China and the European Union. Part 3 is devoted to EU-China trade relations, and Part 4 to the bilateral trade relations from a Chinese perspective. Part 5 examines the various ways to improve the currently difficult EU-China trade relation, followed by the conclusions in Part 6.

2 A New Bilateral Agreement in the Making

The EU has been China's largest trading partner since 2004.[2] In terms of volume of trade, the EU-China trade relationship is the second largest bilateral trade relationship in the world, only after the EU-U.S. trade relationship. Diplomatic relations were established in May 1975, between the European Economic Community (EEC) and China, and a trade agreement was concluded between the EEC and China, as early as 1978.[3] This agreement was replaced by a Trade and Economic Cooperation Agreement between China and the EEC in 1985.[4]Till date, the EU continues to work toward improving bilateral trade relationships. On November 4, 2005, Commissioners Peter Mandelson and Benita Ferrero-Waldner met with Chinese trade Minister Bo Xilai to

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[1] For a ist of China's notified RTAs in force, see http://rtais.wto.org/UI/PublicSearchByMemberResult.aspx?enc=BGNDAo9i1u5NEK0fWo0Yn7u86VXlYA8JFWG+eFcVR+o = .

[2] Pastor, A. & Gosset, D. "The EU-China relationship: A key to the twenty-first-century order," available at http://www.ceibs.edu/ase/Documents/eu-china.relationship.en.htm.

[3] OJ L 123, May 11, 1978, p. 2.

[4] Council regulation 2616/85 [1985]. OJ L 250/1, September 19, 1985.

discuss the Doha Round[5] as well as a wide range of issues including the environment, energy, and intellectual property.[6]

However, the EU-China relations have not always been smooth. For example, in November 2008, the Chinese government informed the French EU Presidency that Chinese Prime Minister Wen Jiabao would not be traveling to Lyon for the EU-China summit. The summit was expected to focus on disputes over China's high trade surplus with the EU as well as coordinating a global response to the financial crisis, which has expedited China's rise to a position of greater responsibility in maintaining international order in global economic governance.[7] The Chinese government based its decision on the fact that the Dalai Lama was going to visit several EU member states at the same time as the EU-China summit had been scheduled, and that he would be meeting with heads of state and government as well as presidents of European institutions. One could infer from this Chinese retaliation that Chinese leaders consider the isolation of Tibet and the Dalai Lama a bigger priority than the enhancement of the Sino-European strategic partnership.[8] This retaliation raises some interesting questions: What does it mean from a Chinese perspective that EU countries have meetings with the Dalai Lama at the same time as the Chinese Prime Minister is supposed to have meetings in those countries? Why are EU countries not interfering more in the China-Tibet situation?

The first EU-China Strategic Dialog at Deputy Foreign Minister level was held in London in December 2005, where the two sides exchanged views on each other's role in the current international system, China's peaceful development, the EU's integration process, and other issues of common concern.[9] At the ninth EU-China summit in September 2006 in Helsinki, the EU and China agreed on opening negotiations for a new comprehensive framework agreement covering topics such as energy, sustainable development, cooperation in Africa, and the protection of intellectual

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[5] Before the creation of Doha Round in 2001, developing and least-developed countries had been marginalized in the world trading system, which brought with it serious economic implications. In 2001 in Doha (Qatar), developing countries were promised inclusion in the world trading system in order to achieve a higher level of justice and equity in the world. That is why, the Doha Round is called the development agenda. The Doha Round was the result of widespread agreement among delegates at the fourth WTO Ministerial Conference in Doha that it was time to address the imbalances of previous rounds and to offer developing countries the prospect of trade talks which they could see were to their benefit. For further details, see Leal-Arcas, R. *Theory and Practice of EC External Trade Law and Policy*, London: Cameron May 2008, pp. 486–500.

[6] See the twentieth meeting of China-EU mixed committee on trade and economic cooperation, available at http://www.chinamission.be/eng/sbgx/sbjw/t220311.htm.

[7] For an official recount of China's ten responsibilities in the world, see the speech by the Chinese Premier Wen Jiabao, "China – On the Path of Peaceful Development for World Peace and Prosperity," speech delivered at the welcoming banquet hosted by the Australian Prime Minister on April 3, 2006, available at http://in.china-embassy.org/eng/zyjh/t244011.htm.

[8] See EurActiv, "Brussels stunned as Beijing cancels EU-China summit," November 27, 2008, available at http://www.euractiv.com/en/foreign-affairs/brussels-stunned-beijing-cancels-eu-china-summit/article-177550.

[9] See Chinese government's official web portal, "China, EU hold strategic dialog in London," December 23, 2005, available at http://www.gov.cn/misc/2005-12/23/content_134701.htm.

property rights.[10] This was largely due to the mutual consensus between both parties that the 1985 Agreement no longer reflected the scope, depth, or overall nature of their current relationship.

So, negotiations for a more comprehensive Partnership and Cooperation Agreement (PCA) started in January 2007. The PCA is expected to cover all components of the EU-China relationship and provide a comprehensive management framework. The prospective PCA is expected to lay the foundation for enhanced cooperation, including the enforcement and, where possible, the upgrading of environmental, social, labor, and safety standards. It will also hold comprehensive discussions in over 20 ongoing sectoral dialogs, with a view to promote cooperation in all sectors, including on economic and financial matters, in both bilateral and multilateral *fora*. With regard to these existing sectoral agreements, the PCA will complement rather than replace these agreements.[11]

By re-negotiating the 1985 Trade and Economic Cooperation Agreement, the EU and China will be facing several difficulties as both parties expect more from each other. The new agreement is expected to boost the dialogs between the EU and China.[12] However, despite the ever intensifying commercial links between the two sides, discussions over the scramble for energy supplies,[13] human rights, and other issues have hampered a renewed convergence of interests.[14] Furthermore, the 2008 global financial crisis had a considerable effect and is expected to have a profound impact on Sino-EU relations in political and economic spheres.

In general, the PCA will be negotiated on the basis of a commitment to the principles of good governance, rule of law,[15] effective multilateralism, the fight against corruption, and improved transparency. As such, the PCA will contain a standard clause on human rights—an issue where China continues to have a poor record domestically.[16] This is despite the fact that Article 33 of the Chinese Constitution

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[10] Europa Press releases RAPID, "EU and China to agree on opening negotiations for a new comprehensive framework agreement," September 8, 2006, available at http://europa.eu/rapid/pressReleasesAction.do?reference=IP/06/1161&format=HTML&aged=0&language=en&guiLanguage=en%22.

[11] Emerging markets group and development solutions, "trade sustainability impact assessment of the negotiations of a Partnership and Cooperation Agreement between the EU and China—draft global analysis report," p. 8, August 2007.

[12] For EU-China political, trade, and economic dialog meetings, see http://ec.europa.eu/external_relations/china/dialogue_en.htm. For an overview of the EU-China sectoral dialogs, see http://ec.europa.eu/external_relations/china/sectoraldialogue_en.htm.

[13] On energy governance, see Goldthau, A. & Witte, J.M. (eds.) *global energy governance: The New Rules of the Game*, Washington, D.C.: Brookings Institution Press, and Berlin: Global Public Policy Institute, 2010.

[14] "China and the EU: concord or conflict? Available at http://www.uaces.org/events/calendar/event.php?recordID=142.

[15] For an analogous experiment on how WTO law affects the rule of law in domestic legal orders, see Hu, Martin "WTO's impact on the rule of law in China," in the Maureen and Mike Mansfield Foundation, *The Rule of Law: Perspectives from the Pacific Rim*, pp. 101–106, October 2000.

[16] For concrete examples of China's apathy toward human rights, see "Devastating Blows: religious repression of Uighurs in Xinjiang," *Human Rights Watch*, Vol. 17, No. 2.

affirms that the state shall respect and guarantee human rights.[17] In the past, China has also provided aid to foreign countries without paying attention to the importance of human rights. For example, China's unconditional aid policy in Africa has infuriated many EU countries which consider Chinese intervention counterproductive to Europe's efforts to promote human rights, good governance, and environmental health in Africa.[18] This is going to be one of the major hurdles in the negotiation of this new agreement.

The EU, on the other hand, uses the generalized system of preferences (GSP), as a vital tool of its pro-development trade policy,[19] developed at the instigation of the United Nations Conference on Trade and Development.[20] The GSP is an autonomous measure of the EU which, from the outset, has been authorized under GATT/WTO law, and where the BRIC countries (Brazil, Russia, India, and China) are beneficiaries. The purpose of such an autonomous measure is, inter alia, to improve human rights protection in developing countries and to raise their export revenue.

In addition to the GSP, the EU also offers a special incentive arrangement to foster sustainable development and good governance, called the GSP Plus incentive system.[21] To benefit from the GSP Plus scheme, countries need to demonstrate that their economies are poorly diversified, and, therefore, dependent and vulnerable. They also need to have ratified and effectively implemented 27 key international conventions: the 16 core conventions on human and labor rights and seven (out of 11) of the conventions related to good governance and the protection of the environment.[22] At the same time, beneficiary countries must commit to ratifying and effectively implementing the international conventions which they have not yet ratified. In any case, the 27 conventions had to be ratified by the beneficiary countries by December 31, 2008. In December 2008, the EU granted preferential tariff rates for the period from 2009 to 2011 to 16 developing countries that met its criteria for sustainable development and good governance.[23] None of the BRIC countries wants

[17] Article 33 of the Chinese Constitution.

[18] Even countries such as Germany and France, whose former leaders once were China's best friends, have now become more skeptical of China.

[19] On the legal basis for adoption of a GSP, see Case 45/86, *Commission v. Council* [1987] ECR 1493, where the ECJ confirmed former Article 113 EC (current Article 133 EC) as the appropriate legal basis.

[20] Theidea of granting developing countries preferential tariff rates in the markets of industrialized countries was originally presented by Raul Prebisch, the first Secretary General of the United Nations Conference on Trade and Development (UNCTAD), at the first UNCTAD conference in 1964. The generalized system of preferences was adopted at UNCTAD II in New Delhi in 1968. Under the standard GSP, preferential access to the EU market is provided to 176 developing countries and territories in the form of reduced tariffs on around 6,400 goods when entering the EU market, with no expectation of reciprocal treatment.

[21] See Council Regulation (EC) No. 732/2008, OJ L 211/1, of July 22, 2008, applying a scheme of generalized tariff preferences for the period from January 1, 2009 to December 31, 2011.

[22] For the list of conventions to qualify for the GSP Plus scheme, see http://ec.europa.eu/trade/issues/global/gsp/memo230605_en.htm.

[23] For a list of the 16 beneficiary countries, see commission decision of December 9, 2008, Dec. 2008/938/EC, OJ L 334/90. These tariff preferences are in addition to the standard GSP. See Bridges

to be part of the GSP Plus incentive arrangement, presumably because they do not like conditionality, and because they do not see themselves as fitting the basic criteria. The PCA between China and the EU is expected to foster cooperation between the two in finding international solutions to global issues such as climate change, including specifically energy cooperation by stimulating energy efficiency and the promotion of renewable energy. Increased cooperation will also be sought in education, culture, and science. It is envisaged that there will be increased peer-to-peer exchanges of unions, students, academics, business associations, non-governmental organizations, and other areas of cooperation at the grass-roots level.[24]

However, a free-trade agreement (FTA) between the EU and China is not on the horizon since it would alienate other EU trading partners. Moreover, an FTA would create much resistance from within the EU and from third countries, even though cooperation dialogs between the EU and China already exist on many levels. Nevertheless, China is, as it is, very competitive without an FTA with the EU.

3 Current Difficulties in EU-China Trade Relations

Trade can be used as a "carrot" or as a "stick." It is used as a "carrot" when preferences for certain countries create competitive advantages over third parties. Trade can also be used as a "stick" or punishment such as: (1) to deny preferences to a certain country when granting them to others, thereby creating discrimination and trade diversion; (2) through trade defense instruments[25] such as anti-dumping and safeguard measures[26]; and (3) by legally punishing the wrongdoer to compensate the victim through the World Trade Organization (WTO) dispute settlement system.[27] Knowing that trade with the west is vital, Chinese leaders railed against the dangers

Weekly News Digest, "EU: 16 developing countries to receive GSP + market access benefits," Vol. 12, No. 42, December 10, 2008, available at http://ictsd.net/i/news/bridgesweekly/35942/.

[24] Hu, Martin "WTO's impact on the rule of law in China," in the Maureen and Mike Mansfield Foundation, *The Rule of Law: Perspectives from the Pacific Rim*, pp. 101–106, October 2000.

[25] Trade defense instruments are protective mechanisms that are legal under the WTO Agreements. They may be triggered to counter the effects of dumping, subsidies, and unexpected import surges causing injury to domestic industry. Such mechanisms include anti-dumping measures, countervailing duties, and safeguards. See *Dictionary of Trade Policy Terms*, fifth ed., Cambridge University Press, 2007, p. 101.

[26] On anti-dumping and safeguard measures in the case of China, see Messerlin, P. "China in the WTO: antidumping and safeguards," unpublished, December 14, 2002.

[27] See Article 22.1 DSU. According to Rachel Brewster, the WTO's dispute settlement understanding (DSU) subordinates unilateral enforcement of international trade law to a rule-based system of multilateral enforcement. It also immunizes violations of WTO law from retaliatory sanctioning so long as the offending measures are withdrawn at the end of the litigation process, which is often several years later. See Brewster, R. "shadow unilateralism: Enforcing International Trade Law at the WTO," *University of Pennsylvania Journal of International Law*, 2009.

of protectionism during the 2008 economic recession and opposed very much the new trend of protectionism in the world trading system.[28]

Where there used to be cooperation between the Chinese and the Europeans, competition and tension have now replaced it, as a result of defensiveness on both sides. There are several differences and difficulties between the EU and China in the trade field, and some of which are of serious concern to the EU: the protection of intellectual property rights,[29] counterfeiting and product piracy,[30] product safety concerns,[31] a ballooning bilateral trade deficit,[32] China's undervalued currency,[33] China's delay in complying with and enforcing WTO rules,[34] China's competitive advantage from its poor social and environmental standards, and unfair subsidies to favored national industries, (which is a manifest violation of one of the fundamental principles of WTO law—that of no unfair trade)[35] to name but a few.[36] Examples of unfair trade practices are Chinese export restrictions on a number of key raw

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[28] Zeng, M. "China President warns against protectionism," *The Wall Street Journal*, November 15, 2008, available at http://blogs.wsj.com/economics/2008/11/15/china-president-warns-against-protectionism/.

[29] See generally, European Commission, "Intellectual Property Rights in China," available at http://ec.europa.eu/trade/issues/sectoral/intell_property/ipr_china_en.htm. See also China—Measures Affecting the Protection and Enforcement of Intellectual Property Rights, Report of the Panel, WT/DS362/R, January 26, 2009, where the EC acted as a third party in a case brought by the U.S. against China.

[30] A few years ago, Nobel Prize winner in Economics and Columbia University Professor Joseph Stiglitz was approached by a Chinese publisher who wanted him to write a foreword to a pirated edition of one of his books. See lecture delivered by Joseph Stiglitz on August 27, 2006 at the Edinburgh International Book Festival 2006, p. 6, available at http://www.scribd.com/doc/1037295/RSA-talk-Joseph-Stiglitz.

[31] See joint statement of the ninth EU-China summit, September 9, 2006.

[32] Since the 2008 global macroeconomic crisis started, the bilateral trade deficit has been reduced because there is less trade.

[33] On monetary affairs, it is interesting to note the proposal by Zhou Xiaochuan, governor of China's central bank, who has suggested creating a "super-sovereign reserve currency" to replace the dollar over the long run. For an analysis on the matter, see Bergsten, F. "We should listen to Beijing's currency idea," *Financial Times*, Op-ed, April 8, 2009. For an analysis of China's undervalued currency, see Mercurio, B. & Leung, C. "Is China a 'currency manipulator'?: The legitimacy of China's exchange regime under the current international legal framework," *The International Lawyer*, Vol. 43, No. 3, pp. 1257–1300, Fall 2009.

[34] On China's compliance with its WTO obligations, see Hughes, K., Lin, G., & Turner, J. "China and the WTO: domestic challenges and international pressures," Woodrow Wilson Center Special Report, 2002. See also Chan, G. "China and the WTO: the theory and practice of compliance," *Asia Programme Working Paper*, No. 5, Royal Institute of International Affairs, June 2003; Clarke, D. "China's legal system and the WTO: prospects for compliance," 2 *Washington University Global Studies Law Review* 97, Winter 2003.

[35] See generally, European Commission, "Respecting the Rules," available at http://ec.europa.eu/trade/issues/respectrules/index_en.htm.

[36] European Commission, "EU uses WTO China Trade Policy Review (TPR) to raise questions of fair treatment, intellectual property protection," May 23, 2008, available at http://ec.europa.eu/trade/issues/bilateral/countries/china/pr230508_en.htm.

materials. The EU has unsuccessfully raised the issue with China on several occasions, including through formal WTO consultations. As a result, the Europeans have decided to use the WTO's dispute settlement system, hoping that China will comply with its international obligations.[37] More recently, in May/June 2010, the EU used the WTO's most recent Trade Policy Review of China[38] to encourage China to continue adopting its promises for an open economy and more transparency in policy-making. The lack of transparency in some of China's policies is an issue of great concern to the EU.[39]

Intellectual property rights theft remains a serious problem for European businesses in China. Almost 60% of all counterfeit goods seized at European borders in 2007 came from China. Seven out of ten European businesses operating in China say that they have been the victim of intellectual property rights violations.[40] The EU, therefore, pushes China hard to trade fairly, respect intellectual property rights, and meet its WTO obligations. However, in Chinese culture, focus is more on the system than on the individual, and traditionally, it is an honor for the inventor if his/her ideas are copied by others. One wonders whether this has an impact on the Chinese application of intellectual property rights.[41] In a nutshell, there are causes of frustration on both sides: The EU's frustration stems from the perception that it is losing ground in China amid a soaring bilateral trade deficit, whereas China feels that the EU is not appropriately appreciating a mutually beneficial relationship and is frustrated over the recurring calls for protective measures. Furthermore, China has recently set up special courts dealing solely with intellectual property rights issues.[42]

Based on the above, the question is whether the EU is using the Chinese violations of intellectual property rights politically. The EU has stated that it will continue

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[37] See European Commission, "EU requests WTO panel on Chinese export restrictions on raw materials," November 4, 2009, available at http://trade.ec.europa.eu/doclib/press/index.cfm?id=481.

[38] World Trade Organization, Trade Policy Review of China, WT/TPR/S/230, April 26, 2010.

[39] See opening statement by the EU Head of Delegation in Geneva on the trade policy review of China, May 31, 2010.

[40] European Commission, "EU-China trade in facts and figures," May 2009.

[41] The ethics of intellectual property rights is widely discussed in the literature. See for instance Kit-Chun Joanna Lam, "Confucian Business Ethics and the Economy," *Journal of Business Ethics*, 2003, Vol. 43, No. 1/2, pp. 153–162; John D. Mittelstaedt & Robert A. Mittelstaedt, "The Protection of Intellectual Property: Issues of Origination and Ownership," *Journal of Public Policy and Marketing*, 1997, Vol. 16, No. 1, pp. 14–25; William Alford, "Whose Property? Whose Rights?" CIO, 2006, Vol. 19, No. 23, pp. 50–52; Wei Shi, "Cultural Perplexity in Intellectual Property: Is stealing a book an elegant offense?," *North Carolina Journal of International Law and Commercial Regulation*, 2006, Vol. 32, No. 1, pp. 1–47; Tobias Bender, "How to cope with China's (Alleged) failure to implement the TRIPS obligations on enforcement," *The Journal of World Intellectual Property*, 2006, Vol. 9, No. 2, pp. 230–250.

[42] See, for example, Derek Bosworth & Deli Yang, "Intellectual Property Law, Technology Flow and Licensing Opportunities in the People's Republic of China," *International Business Review*, 2000, Vol. 9, No. 4, pp. 453–477.

to give China the non-market economy treatment[43] in anti-dumping cases until China improves its practices in various areas, including intellectual property rights.[44] The question arises whether the EU is really interested in granting China a market economy status in the anti-dumping field. The fact that the EU does not grant China a market economy status is certainly a concern for China, which in turn pushes EU member states to grant China a market economy status even when EU member states have little role in trade matters. It is important to note that anti-dumping is one of the very few tools to legally make a trade obstacle toward the import of Chinese products.[45]

Under WTO law, there is no definition of market economy.[46] One valid definition, however, is 'an economy in which the price mechanism determines what is produced and traded, though too often price signals are distorted by subsidies, industry policy, and other types of government intervention.'[47] Some countries have granted China market economy status in the anti-dumping field. It follows from Article 15 of the WTO Accession Agreement of China that it is left entirely to the other WTO members on a bilateral basis to give China a market economy status in anti-dumping cases.[48] For example, countries such as Australia, Argentina, Brazil, and several Asian countries treat China as a market economy in anti-dumping cases, whereas the EU and the U.S. treat China as a non-market economy.[49]

China's economy since the late 1970s has changed from a centrally planned system which was largely closed to international trade, to a more market-oriented economy that has a rapidly growing private sector and is a major player in the global economy.[50] Reforms started in the late 1970s with the phasing out of collectivized

[43] The issue of non-market economy was most recently raised at the 12th EU-China summit in Nanjing, China, on November 30, 2009. See joint statement, p. 6, para. 21, available at http://www.se2009.eu/polopoly_fs/1.25563!menu/standard/file/statement091130.pdf.

[44] See "China—market economy status in trade defense investigations," Brussels 28 June 2004, available at http://trade.ec.europa.eu/doclib/docs/2004/june/tradoc_117795.pdf.

[45] See Anti-Dumping Agreement (Agreement on Implementation of Article VI of the General Agreement on Tariffs and Trade 1994). See also Bown, Ch.P. "The Global Resort to Antidumping, Safeguards, and other Trade Remedies amid the Economic Crisis," *Policy Research Working Paper* 5051, The World Bank, September 2009.

[46] For example, GATT 1947 does not make any reference to the concept of market economy.

[47] See Walter Goode, *Dictionary of Trade Policy Terms*, fifth ed., Cambridge University Press, 2007, p. 274. For an analysis of what features of a legal structure suited to a market economy are missing in the case of China, see Clarke, D. "China: creating a legal system for a market economy," *The George Washington University Law School Public Law and Legal Theory Working Paper*, No. 396, 2007, pp. 1–24.

[48] Protocol on the accession of the People's Republic of China to the WTO, November 10, 2001, available at http://unpan1.un.org/intradoc/groups/public/documents/APCITY/UNPAN002123.pdf.

[49] For an overview of anti-dumping and the non-market economy treatment of China by the EU and the U.S., see Snyder, F. 'the origins of the non-market economy: ideas, pluralism, and power in EC Anti-Dumping Law about China' *European Law Journal*, vol. 7, No. 4, 2001, pp. 369–434.

[50] See central intelligence agency, "The World Fact book: China," available at https://www.cia.gov/library/publications/the-world-factbook/geos/ch.html.

agriculture and expanded to include the gradual liberalization of prices, fiscal decentralization, increased autonomy for state enterprises, the foundation of a diversified banking system, the development of stock markets, the rapid growth of the non-state sector, and the opening to foreign trade and investment.[51] China has generally implemented reforms in a gradualist or piecemeal fashion. In recent years, China has re-invigorated its support for leading state-owned enterprises in sectors it considers important to economic security, explicitly looking to foster globally competitive national champions.[52]

According to the European Commission, "China is the single most important challenge for EU trade policy."[53] As argued by former trade commissioner Mandelson, "doing business in China remains attractive. However, it is equally clear that much work needs to be done to create a level playing field for European companies, concerning market access, transparency, and protection of intellectual property."[54] In this sense, according to the European Commission, European services companies find it very difficult to break into the Chinese market and are often discriminated against. Although China has signed agreements to open its market, since 2001, it has granted 22,000 telecoms licenses in China, and only 14 had gone to foreign companies as of July 2010.[55] Moreover, although imports from China have surged thanks to the EU's open market, Asia's share of total EU imports has increased only very moderately by 10% since the beginning of the 2000s.[56] The bilateral trade deficit reflects the considerable problems EU businesses still have accessing the Chinese market.[57] Based on the above, it is also in question whether the GATS rules about services in general, and its special rules about telecommunication services, in particular, are good enough to ensure EU service providers access to the Chinese market.[58]

According to the European Commission, for the bilateral relationship to be politically and economically sustainable in the long term, the EU "should continue to offer open and fair access to China's exports and to adjust to the competitive challenge. The EU needs to develop and consolidate areas of comparative advantage in

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[51] Ibid.

[52] Ibid.

[53] European Commission, "Accompanying COM(2006) 631 final: closer partners, growing responsibilities. A policy paper on EU-China trade and investment: competition and partnership," COM(2006) 632 final, October 24, 2006, p. 3.

[54] European Commission, "Mandelson discusses opportunities, barriers in China with EU Business," September 17, 2008, available at http://ec.europa.eu/trade/issues/bilateral/countries/china/pr170908_en.htm.

[55] See Europa Press Release, "EU-China t
rade in facts and figures," MEMO/10/352, July 20, 2010.

[56] Ibid.

[57] Ibid.

[58] See the complicated rules in the GATS Annex on Telecommunications as well as the various commitments and exemptions by the parties to the agreement. For comments about the complicated rules in the GATS and the banking sector, see Daniel C. Crosby, "Banking on China's WTO Commitments: 'Same Bed, Different Dreams' in China's Financial Services Sector," *Journal of International Economic Law*, 2008, Vol. 11, No. 1, pp. 75–105.

high-value and high-tech design and production, and to help workers retrain. China for its part should reciprocate by strengthening its commitment to open markets and fair competition."[59]

China maintains investment and ownership caps in many sectors such as banking, construction, and telecommunications. Moreover, as regards the legal sector, foreign law firms in China are not allowed to employ Chinese lawyers and are not permitted to participate in bar exams to gain Chinese qualifications.[60] Furthermore, even if China is the EU's fastest growing export market,[61] the Chinese market is still relatively closed to the goods Europe seeks to export.[62] China may have lowered its tariffs substantially since 2001, but barriers "behind the border" in the Chinese market are costing European businesses more than €20 billion every year in lost exports.[63] Nevertheless, as can be seen in the chart: regarding the situation in 2008 when comparing with the rest of the BRIC countries (Brazil, Russia, India, and China), China is the main partner for both EU imports[64] and exports[65] (Fig. 1):

4 A Chinese Perspective of the EU-China Trade Relations

EU-China commercial ties have grown increasingly stronger to the extent that the EU-China economic and trade relationship is today one of the largest, most exciting, and challenging bilateral trade relationships in the world. The following four graphs show the progression of China's trade relations with the EU from 1975 to 2008 (Graphs 1, 2, 3, and 4):

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[59] European Commission, "EU – China: Closer partners, growing responsibilities," Communication from the Commission to the Council and the European Parliament, Brussels, October 24, 2006, COM(2006) 631 final.

[60] European Commission, "EU-China trade in facts and figures," available at http://ec.europa.eu/trade/issues/bilateral/countries/china/memo300109_en.htm.

[61] The EU exported around € 78.4 billion worth of goods to China in 2008 and this figure increased by 9% in 2008 compared to 2007. Exports from the EU to China grew by approximately 65% between 2004 and 2008. Nevertheless, the EU still exports more to Switzerland (a market of 7.5 million people) than to China (a market of 1.3 billion people). See European Commission, "EU-China trade in facts and figures," May 2009.

[62] European Commission, "Mandelson discusses opportunities, barriers in China with EU Business," September 17, 2008, available at http://ec.europa.eu/trade/issues/bilateral/countries/china/pr170908_en.htm.

[63] Ibid.

[64] EU imports from China have grown by around 18% per year between 2003 and 2008. China is the EU's biggest source of manufactured imports. Three decades ago, China and the EU traded almost nothing. See European Commission, "EU-China trade in facts and figures," May 2009.

[65] According to the European Commission, the EU "treats China as a normal and important trading partner." See European Commission, "EU uses WTO China Trade Policy Review (TPR) to raise questions of fair treatment, intellectual property protection," May 23, 2008, available at http://trade.ec.europa.eu/doclib/cfm/doclib_section.cfm?sec=120&link_types=&dis=20&sta=41&en=60&page=3&langId=en.

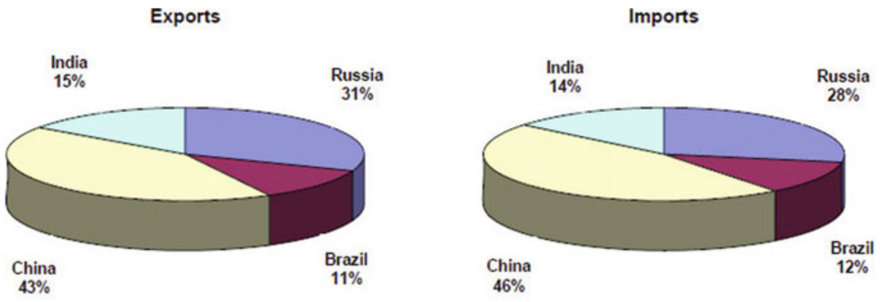
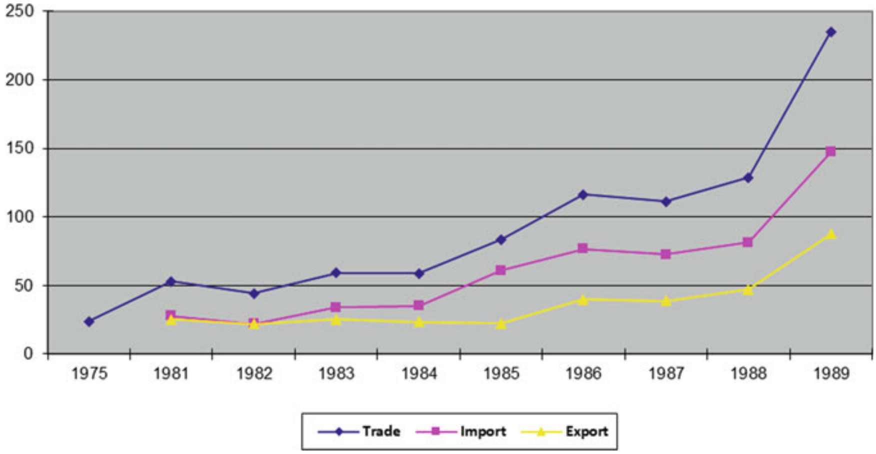


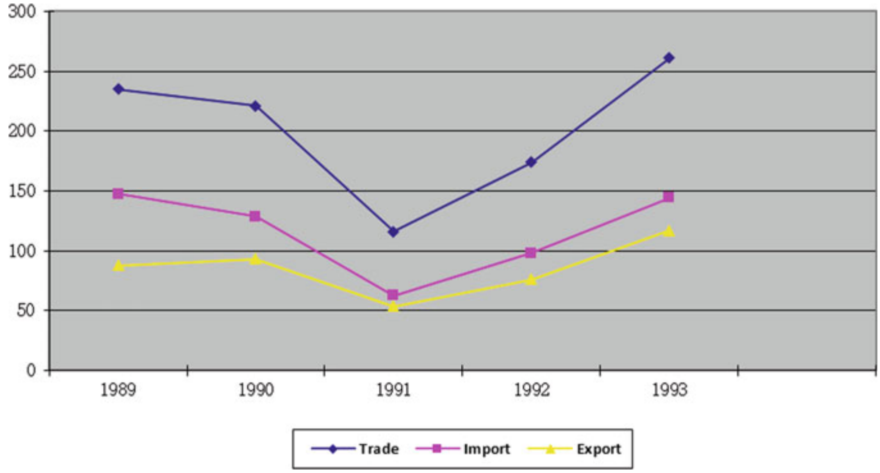
Fig. 1 Share of EU trade with individual BRIC countries. *Source* Eurostat



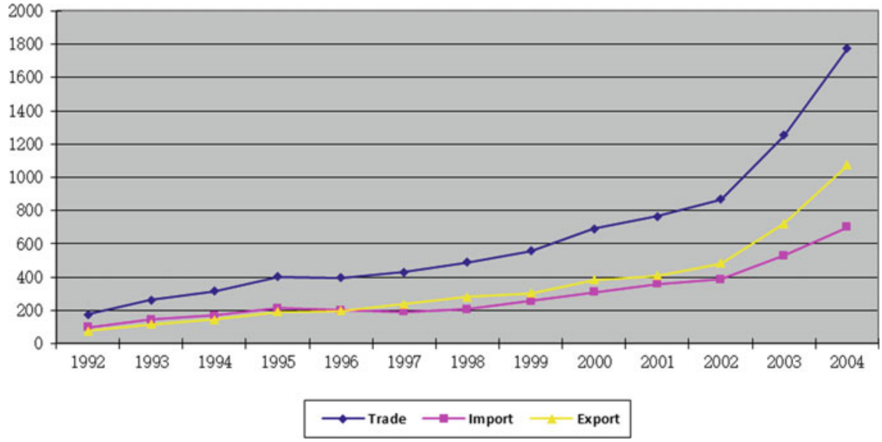
Graph 1 China's trade with the EC (1975–1989). Unit: hundred million (US$). *Source* Chinese Customs Yearbook

The traumatic political breakdown as a result of the 1989 Tiananmen Square incident delivered a serious blow to the European Community-China trade relationship.[66] Trade volume dropped in 1990–1991. In 1992, the trade value started to recover and, since then, it has been growing considerably. This can be partly attributed to the complementary nature of the Chinese and European economies and partly to the full normalization of bilateral relations in 1994–1995, which ultimately was to develop into a comprehensive strategic partnership in 2003–2004.

[66] See European Council Declaration on China, June 26–27, 1989[2nd EDIT: add to the source annex I of E.U., European Union Factsheet available at http://ue.eu.int/uedocs/cmsUpload/FACTSHEET_ON_THE_EU_AND_CHINA.pdf.



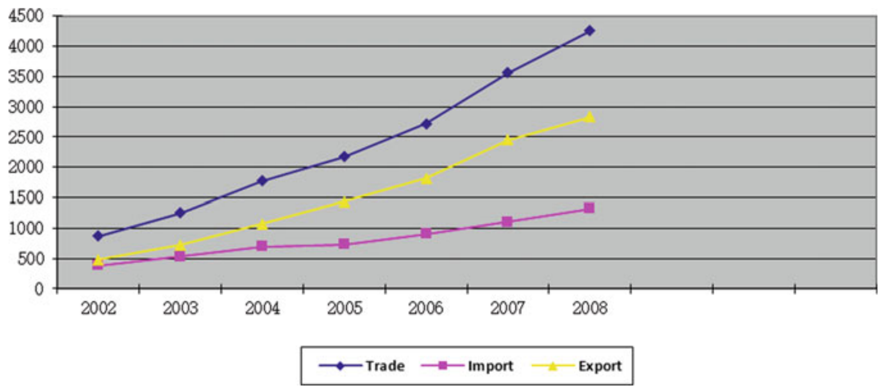
Graph 2 China's trade with the EU (1989–1993). Unit: hundred million (US$). *Source* Chinese Customs Yearbook



Graph 3 China's trade with the EU (1992–2004). Unit: hundred million (US$). *Source* Chinese Customs Yearbook and the Ministry of Commerce, People's Republic of China

Europe was one of the earliest interlocutors that China approached in its campaign to resume membership of the General Agreement on Tariffs and Trade (GATT).[67] China's former Vice Premier and Minister for Trade, Li Lanqing, recently disclosed in his book how the Chinese trade negotiator viewed the European Community (EC)

[67] For an analysis of the relations between China and the EU with regard to China's membership of the WTO, see Snyder, F. (ed.) *The European Union and China, 1949–2008: Basic Documents and Commentary*, Oxford and Portland: Hart Publishing, 2009, Chap. 9.



Graph 4 China's trade with the EU (2002–2008). Unit: hundred million (US$). *Source* Ministry of Commerce, People's Republic of China

when, in 1987, China started to pursue negotiations for the resumption of its GATT membership with the EC,

> The European Communities are a powerful trading group, holding a very important position in the GATT second only to the U.S.. China has an excellent relationship with the European Communities. Politically, the EC welcomes and supports China's request for resuming its GATT membership, but when negotiating the terms of China's resumption of GATT membership, the EC took an uncompromising approach and seized on every economic interest. Therefore, as we see the EC as one of our major negotiating interlocutors, we need to lobby hard and enhance mutual understanding. On the one hand, we should elaborate upon our position and views on resumption of GATT membership, state China's policies of opening-up and economic reform, and show our sincerity and determination to participate in the multilateral trading system. On the other, we should listen to the EC's feedback on China's request and have a good understanding of the specific requests from the European Communities.[68]

In the EU-China WTO accession talks,[69] former EU trade commissioner Pascal Lamy played tough, pressing for further market access concessions, after the U.S. and China had already signed a market access deal in November 1999.[70] Lamy managed to conclude the talks in May 2000. He was demanding, but at the same time, well-aware that allowing China to join the WTO was not only a necessity for the EU's commercial interests, but also an inevitable historical trend, as China was re-emerging onto the world stage and committed to becoming part of the existing multilateral trading system.[71]

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[68] Li (2010).

[69] See for instance China's accession to the WTO: first and second stages of integration under the Agreement on textiles and clothing, OJ C 356, 14 December 2001, p. 0004.

[70] WTO news, "Director-General Moore welcomes US-China deal, but cautions more work remains on China's entry," Press/148, November 15, 1999, available at http://www.wto.org/english/news_e/pres99_e/pr148_e.htm.

[71] On China, regional trade agreements, and the WTO, see Snyder, F. *The EU, the WTO and China: Legal Pluralism and International Trade Regulation*, Oxford: Hart Publishing, 2010, Chap. 9.

The first time that the EU witnessed China's genuine commercial power and massive build-up of its exporting capabilities was in the textile sector, where the EU directly experienced the tensions among European consumers, producers, importers, retailers, EU member states representing their interests, and China as well. There were three main points on the minds of the Chinese decision-makers: (1) ensuring the stable growth of China's textile exports to the EU market, (2) maintaining positive EU-China relations, and (3) avoiding harming the interests of other developing countries.[72]

After the conclusion of the China-EU Textile Memorandum of Understanding in 2005 in Shanghai, Chinese Minister of Commerce Bo Xilai emphasized upon China's strategic thinking regarding Sino-EU relations by stating that consideration must be given to the overall situation of China's diplomacy. Furthermore, he stated that China's relationship with the EU is much broader than the textile case alone, and therefore, one cannot allow the textile issue to affect the China-EU comprehensive strategic partnership.[73] Chinese Premier Wen Jiabao acknowledged the importance of considering the commercial interests of other developing countries when he met with the Prime Minister of Mauritius on November 6, 2006. At that meeting, Premier Wen stated that the agreements that China signed with the EC and the U.S. had, to a large extent, taken into consideration the interests that African countries have in the EU and American markets.[74]

The result was the final development of a "win–win-win"[75] agreement, as Commissioner Mandelson said to the press, in the sense that "(the) agreement will be fair on both sides. It provides clarity, certainty and predictability and will also provide relief for developing country textile exports to Europe. It is an agreement that helps everyone's interest."[76]

While the buzzword of the EU-China trade relationship in 2005 was "textiles," in 2006–2007, it became "trade deficit." History repeats itself. When negotiating the 1978 EEC-China Trade Agreement, China was suffering from a serious trade deficit *vis-à-vis* the EEC, and, therefore, tried to obtain a trade balance clause (Article 3) which would "foster the harmonious expansion of their reciprocal trade" and help to attain "a balance in such trade."[77]

The strong urge to tackle the 2008 financial crisis prompted the Chinese side to hold two summits with the EU in 2009 and send 10 missions to the EU. Premier Wen

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[72] Ibid.

[73] For a Chinese official view of the China-EU Textile Memorandum of Understanding, see Ministry of Commerce of the People's Republic of China, "China and EU Signed Memorandum on Textile Trade," available at http://boxilai2.mofcom.gov.cn/aarticle/activity/200506/20050600117183.html.

[74] Chinese government's official web portal, "Premier Wen meets four African leaders," available at http://english.gov.cn/2006-11/06/content_433774.htm.

[75] European Commission Press Release No. 62/05, "Details of EU-China Textile Agreement," June 13, 2005, available at http://www.eurunion.org/news/press/2005/2005062.htm.

[76] Ibid.

[77] See Council Regulation (EEC) No 946/78 of May 2, 1978 concerning the conclusion of the trade agreement between the European Economic Community and the People's Republic of China, OJ L123/1, p. 2.

Jiabao spent his 2009 Spring Festival in the EU,[78] sharing with EU policy-makers confidence, courage, and hope in difficult times. Although in 2009 total EU-China trade dropped by 14.5%, the EU remained China's largest trading partner, with nearly 19.7% of China's total exports ending in Europe and 12.7% of China's total imports coming from Europe.[79]

In a nutshell, the important elements for the stability and development of the EU-China trade relations are the strategic nature of the relationship, the unswerving support and personal involvement of leaders from both sides, regular and timely updates of bilateral institutional frameworks, a good use of dialogs, mutual trust, and confidence, especially in difficult times.

5 Possible Ways to Improve EU-China Trade Relations

The question arises as to what the EU can do in the trade field to improve its relations with China. Can trade policy be used to improve bilateral relations with China and induce China to be more responsible and multilateral? China is the EU's second largest trading partner, behind the US. Cooperation is a priority despite the fact that the European Commission has, in the past, mentioned the use of tougher measures if China does not rectify some of its actions. Perhaps, an extension of a high-level strategic dialog[80] similar to the U.S.-China Strategic Economic Dialog would make sense.[81] In fact, there are bilateral dialogs on virtually every topic to reduce differences.

In this sense, Commission President Barroso and Chinese Prime Minister Wen launched a new EU-China High-level Economic and Trade Dialog (HED) Mechanism in Beijing on April 25, 2008 as an effort to maintain cooperation between the two players.[82] The HED is a Chinese initiative and was established in order to address the imbalance in trade flows between the EU and China, thereby hoping to give strategic direction to the bilateral trade relationship and trying to resolve specific concerns on

[78] Chinese Ministry of Foreign Affairs, Remarks by Premier Wen Jiabao at Joint Press Conference with EU Leaders, May 21, 2009, available at http://www.fmprc.gov.cn/eng/wjdt/zyjh/t564469.htm.

[79] For an overview of EU-China trade statistics, see European Commission Directorate General for Trade, http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113366.pdf.

[80] See in this sense the favorable views of former Commissioner Mandelson toward dialog, rejecting thereby trade boycotts against China, as such moves only damage the interests of ordinary Europeans and Chinese. European Commission, "Mandelson says new high-level economic group can help EU and China weather political storms," April 15, 2008, available at http://ec.europa.eu/trade/issues/bilateral/countries/china/pr150408_en.htm.

[81] Given the growing importance of China in world affairs, it is interesting to note the potential shift in the U.S. from a past trans-Atlantic focus to a future and inevitable trans-Pacific focus. See Kissinger, H., "The Three Revolutions," *Washington Post*, April 7, 2008.

[82] European Commission, "EU and China start high-level economic and trade talks," available at http://ec.europa.eu/trade/issues/bilateral/countries/china/pr250408_en.htm.

both sides. The HED is a continuous process to drive the bilateral economic relationship forward, and it provides a forum for resolving bilateral frictions. The broad remit of the HED is to examine the global trading system, strategic bilateral trade-related issues, investment, innovation, technology and intellectual property rights, as well as EU-China economic cooperation.[83] The HED mechanism is to function as a complement and reinforcement to already established EU-China dialogs.

Proposed by the Chinese authorities and approved at the EU-China Beijing summit in November 2007, this mechanism will strengthen the dialog between both sides and will provide a new tool for dealing with the problems confronting European companies trying to establish themselves in China, especially in the fields of investment, market access, and protection of intellectual property rights.[84] The main goals of the HED are to examine: (1) the multilateral trading system, specifically the role of the EU-China trade relations in the wider WTO framework; (2) strategic bilateral trade issues such as market access and technical barriers to trade; (3) investment issues in order to enable greater bilateral investment flows; (4) innovation, including intellectual property rights and technology given that an effective protection of intellectual property rights, is key for both parties; and (5) the EU-China economic cooperation, which includes close coordination on energy, sustainable development, transportation, and better regulation.[85]

Regarding the protection of intellectual property rights, in March 2009, high-level officials from China and the EU met the European industry representatives in Brussels to present progress on the protection and enforcement of intellectual property rights.[86] This progress was made under the bilateral cooperation program on the protection of intellectual property rights, i.e., the EU-China project on the protection of intellectual property rights (IPR2 project).[87]

A second meeting of the EU-China High-level Economic and Trade Dialog took place in May 2009 to discuss ways to improve business opportunities between the two sides. On trade and investment, it was agreed at the second meeting to focus on creating a more balanced trade relationship, including fair competition, by strengthening the EU's and China's customs and regulatory cooperation to create a harmonious trading environment. It was also agreed that the EU would open a European

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[83] Second EU-China High-level Economic and Trade Dialogue (HED), May 6, 2009, p. 2, available at http://trade.ec.europa.eu/doclib/docs/2009/may/tradoc_143096.pdf.

[84] European Commission, "Mandelson discusses opportunities, barriers in China with EU Business," September 17, 2008, available at http://ec.europa.eu/trade/issues/bilateral/countries/china/pr170908_en.htm.

[85] European Commission, "Second meeting of the EU-China High-Level Elonomic and Trade Dialog: May 7 and 8, 2009 in Brussels. Factsheet," Brussels, May 8, 2009.

[86] EU-China Project on the Protection of Intellectual Property Rights (IPR2), "EU-China high-level forum on co-operation for strengthening IPR protection and enforcement: results presented to European industry," available at http://www.ipr2.org/index.php?option=com_content&view=article&id=809:eu-china-high-level-forum-on-co-operation-for-strengthening-ipr-protection-and-enforcement-results-presented-to-european-industry&catid=105:access-to-information&Itemid=83.

[87] For more information on the EU-China project on the protection of intellectual property rights (IPR2), see http://www.ipr2.org/index.php?option=com_content&view=section&layout=blog&id=12&Itemid=89.

small and medium enterprise center in Beijing by the end of 2009. However, in November 2009, the European Commission decided to cancel the project, due to complications.[88] On investment, the EU and China agreed to step up their bilateral investment relationship with a view to ensure an open, stable, and predictable transparent environment for two-way investment.[89]

Furthermore, at the second meeting of the EU-China High-level Economic and Trade Dialog, it was also agreed that the EU and China should step up their cooperation in improving product safety. Because sanitary and phytosanitary rules are harmonized across the EU, this would simplify market access processes.

There are a few motivating factors for an EU-China High-level Economic and Trade Dialog Mechanism. First, there is a need to avoid EU-China policy sliding into a "tit-for-tat" form of protectionism. Increasingly, hostile rhetoric on both sides (especially in the EU) prevents further market access liberalization. There are considerable benefits to be gained from a deepened commercial integration on both sides, although currently there is no adequate framework for moving bilateral relations further. Guided by such concerns and gradually becoming more worried about protectionism, China is keen in promoting multipolarity.[90]. Second, there is a potential market access from reciprocal bargains and from actions by China to open its markets further and to make more efforts to enforce its WTO obligations.[91] Third, the EU-China trade negotiations within the PCA to update the 1985 Trade and Economic Cooperation Agreement between the EEC and China should not be put together with other issues of the negotiations for a PCA, given some highly contentious issues on the PCA such as human rights and climate change. If trade issues are negotiated in the same context as the PCA, there is a risk that negotiations on most topics will end up at a halt. Therefore, the HED can oil out the trade negotiations between the EU and China by giving them a medium-to-long-term context and concrete, small-scale, low-key achievements. And, the fourth motivation for an EU-China HED is bilateral trade dispute consultations. If the HED develops in a friendly manner to inspire effective, business-like problem-solving attitudes, many of the EU's concerns will be solved without a long, uncertain WTO legal dispute.[92]

Other constructive approaches to improving EU-China trade relations could include addressing the non-market economy treatment of Chinese companies in anti-dumping matters, the launch of a cooperation program with China on intellectual property protection, closer cooperation between the EU and the U.S. on intellectual property rights with a joint action in key markets such as China, or the creation of an intellectual property rights helpdesk for EU businesses in China. However, China

[88] EurActiv, "EU in sudden U-turn on China SME center," November 4, 2009, available at http://www.euractiv.com/en/enterprise-jobs/eu-sudden-turn-china-sme-centre/article-187032.

[89] European Commission, "Second meeting of the EU-China High-level Economic and Trade Dialog: May 7 and 8, 2009 in Brussels. Factsheet," Brussels, May 8, 2009.

[90] On multipolarity in the world trading system, see Narlikar, A. & Wickers, B. (eds.) *Leadership and Change in the Multilateral Trading System*, Dordrecht: Republic of Letters, 2009.

[91] Dreyer and Erixon (2008).

[92] Dreyer and Erixon (2008).

has grown very self-confident in recent years and knows that EU businesses depend on access to the Chinese market.[93]

6 Conclusions

The EU is undoubtedly an attractive trade partner for China as it provides much in its trade relations. It is, in fact, China's largest trading partner and, in turn, China is the second largest trading partner of EU. Dealing with China was one of the main arguments in favor of ratifying the Lisbon Treaty because it provides for a permanent president of the European Council and a single foreign affairs post for the entire EU, which facilitates the EU's coherence in its external affairs.

China is, in some areas, much more assertive than other emerging economies such as Brazil and India. So, an EU partnership with China is more difficult than with Brazil or India. The EU is not in a stronger position *vis-à-vis* China due to the large Chinese market and China's growing economic and political power. However, the best results with China—whether it is on climate change, fighting the macroeconomic recession, or fighting terrorism—can only be achieved through partnership with the EU. It seems, therefore, that China has overestimated the EU, and the EU has underestimated China.

Regarding the PCA, ambitious yet at the same time realistic goals should be a priority. The PCA negotiations provide a mechanism to move EU-China objectives forward. Although negotiations for a PCA have already started, the process will not be easy due to the broad scope, complex nature, and importance of EU-China relations, and the intra-EU structure of governance. Dealing with micro-issues first (such as unfair subsidies or market access) might be a better way forward to minimize bilateral tensions than tackling macro-issues (such as the undervalued Chinese currency or the bilateral trade deficit). On the EU side, negotiations will need to balance the interests of the various stakeholders on relevant issues, ensure policy coordination at all levels, and find a common position with a single voice on key issues toward China.

Although the EU does want cooperation with China—whether it is via the PCA or the EU-China High-level Economic and Trade Dialog—in this author's opinion, using trade policy as a "carrot" in a policy-centered approach does not have much scope beyond current existing efforts. The European Commission's Directorate General for external trade is already very active. So, few new initiatives seem possible. Therefore, the EU must adopt a new and better approach with China. Let us hope that the PCA, currently being negotiated, will bring this new approach, where mutual respect should be the basis of the bilateral relations.

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[93] For more details on the High-level Economic and Trade Dialog, see the media briefing note "EU-China High-level Dialog—Can it End Souring Trade Relations and Increased Protectionism? *European Center for International Economy*, May 2009.

Furthermore, given the high volume of commercial transactions as well as the widening and deepening economic cooperation between the EU and China, it is necessary to have a comprehensive treaty law basis, which presumably the PCA will offer. However, an FTA with the EU does not seem to be a suitable trade instrument at the moment. Nevertheless, the EU can expect a mutual benefit as well as greater economic and political ties with China.

In the opinion of the author, it is not about what one negotiates, but how one negotiates the issues. The European Commission should negotiate the prospective PCA more constructively, without patronizing, and instead accept China as an equal player in the current multipolar framework of global economic governance.

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From 'International Relations' to 'Global Foreign Policy'—Examining the New Framework of Chinese Strategic Relations Through the BRI

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Abstract According to Carr, 'Every political judgement helps to modify the facts on which it is passed'. This paper seeks to explore this proposition by following Xi's actions throughout his past seven years, addressing the change in his agenda from that of internal political stabilisation, to global foreign policy. By understanding the implications of the 'Chinese Way', the transformations which were spurred on by the surge in Sinocentrism will be analysed in line with the developments in Chinese regional strategy. The Anglo-American approach towards the ongoing process of Sinification has since approached a critical juncture, facilitated by the increasing fractures in the global power balance. As such, the role and likely success of the BRI initiative will ultimately be dependent on the ability of the current Xi administration to realign themselves among the existing strategic networks. The projected complications brought on by the growing reluctance to comply with China-led objectives will again be evaluated to discern the future efficacy of the OROB.

Keywords Chinese IR and foreign policy · Xi's diplomacy · The 'Chinese way' · Re-align policy · Sinocentrism

1 Introduction

All forms of theory, academic or otherwise are generated with a perspective and a position. Indeed, its positioning is influenced by the corresponding time and space—more specifically, sociopolitical time and space (Cox 1996; pp. 87). When we talk about contemporary Chinese diplomacy, Cox's hypothesis can be applied to gain a comprehensive understanding of its tentative growth trajectory. Chinese diplomacy since its independence can be subdivided by the clear distinctions evident during the times of Mao and Hu, according to the shift in focus from 'International Relations' (hereafter IR) as a tool of diplomacy, to the use of 'Foreign Policy' (hereafter FP), a stance that Xi too has favoured since his first term in office. From the Western

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Y.-C. Kim (ed.), *China and the Belt and Road Initiative*, Understanding China,
https://doi.org/10.1007/978-3-030-86122-3_4

perspective, there are very little theoretical differences between international relations and foreign policy. Yet, the linguistic nuances unique to the Chinese language warrant entirely contrasting reactions to the two concepts.

Immediately after the Great War, the German general-turned-politician Wilhelm Groener defined that 'foreign policy needs power, army, navy and money' (Martin and Piller 2021; pp. 4). In Europe, there are virtually no terminological differences between foreign policy, international relations and diplomacy as these terms are quite often used interchangeably. However, it is a completely different story in China.

From the Chinese diplomatic perspective, Qin Yaqing described that 'Chinese and East Asian culture are very different from the culture of the West. A Chinese School of IR should not just Sinicize Western theories such as Realism, Liberalism, and Constructivism but develop theories from Chinese culture and universalize them through interactions with others (Chinese and outside scholars)' (Qin Yaqing 2006; pp. 9). Qin's theory is centred around the concept of relationality, or *guanxi*, an idea that is embedded in mutual relationships from Confucianism and is a heavily dominant presence in Chinese society. From a Confucian relational perspective, the international society is not as simple as just comprising of independent entities acting in an egoistically rational way in response to the established social structures. Instead, it is a complex web of interpersonal relations made up of entities that coexist in a symbiotic yet relational network of connections (Qin 2007 pp. 315). In retrospect, Chinese diplomacy is based on the 'Chinese social and political time and space', given their standing as a relatively new-born country that emerged from a prolonged period of suffering as an imperialised colony. In this sense, leaders from the PRC had to enhance the intrinsic value of China through a personalised approach on the international stage. This soon developed into mainstream diplomacy, which although interpreted differently by Mao and Hu, became the subject of the 'specific relations' between China and other countries. Such relations were often based on broad sociocultural similarities, or indeed through specialised diplomatic efforts carried out by figures such as Zhou Enlai, that gave China the early support to establish their global presence.

On the other hand, Yan Xuetong, a leading academic that currently heads Tsinghua University's Institute of Modern International Relations, and one of the few advisory members in the Communist Party, emphasised a 'moral realist'-based approach, centred around the integration of morality into the leadership strategy of a growing major power (Yan 2019; pp. 7). In terms of 'morality', Yan focused on 'governmental morality', a system which largely relied upon the role of those at the top of the leadership hierarchy to decide on the extent to which morality determined diplomatic and legislative practices. In comparison with Qin's interpretation of diplomacy, Yan further sought to emphasise the need to 'approach to understand', implying that it is the policy objectives that show the country's direction and attitude. Indeed, such distinctions are critical when evaluating the shift to foreign policy that paved the way towards the formation of the BRI, allowing China to renegotiate their social, economic and political standing. A prudent political analyst, Yan, deemed it necessary to understand the morality of the institutional leaders when determining the trajectory of their foreign policy. Most recently, however, it could be argued that the Trump administration engineered a less than morally determined foreign policy directed at countering Beijing's growing diplomatic presence—the effects of which have questioned the influence of the BRI and indeed the AIIB across the different regions.

According to Byman and Pollack, 'some argue that not a national leader but an international environment formed by the balance of powers is the decisive factor in making foreign policies, but some put importance on the influence of a top leader's personality over the nation's diplomacy' (2001; pp. 123). Throughout the Trumpian era, the majority of what was once seemingly robust international relations became severely deteriorated due to the lack of morality in Washington, forcing China to instead establish specific foreign policy objectives aimed at destabilising US influence whilst promoting their Chinese ideals.

Unlike the highly institutionalised decision-making procedures that are prevalent in Western countries, Chinese diplomacy is instead more reliant on the personalities of its leaders—the international environment, in this case, tends to take the back seat. As such, it is crucial to analyse Chinese diplomacy in line with the individual personality traits of its leadership hierarchy from Mao through to Xi.

What exactly are the main differences between IR and FP from the Chinese diplomatic perspective? First and foremost, they are completely different terms; whilst IR is typically known as *'guoji guanxi'*, FP is referred to as *'duiwai zhengce'*. IR is essentially based on '*guanxi*', and FP however leans more towards *'zhengce'*. In China, '*guanxi*' is a relatively personalised and affable term compared to *'zhengce'*, which is considered to be 'official jargon', commonly used by official institutions or bureaucrats with a definitive intention.

Previously, when China considered the world on traditional terms, they regarded themselves as being the 'only civilised entity living with barbarians', rather than being one state among others (Chen 2005; pp. 37). As such, until the 'hundred years of national humiliation' period (between 1839 and 1949), Chinese diplomacy was mainly reliant on a tributary system, with the Chinese empire being the centre and the Western countries serving as the periphery. From the Chinese perspective, the only relations that existed were between civilised China (*zhonghua*) and the rest of the barbarians (*yidi*). Before the twentieth century, China essentially believed that the world order was a clock like mechanism with China at the core.

This paper therefore explores the conversional paradigm of the People's Republic of China's (hereafter China) diplomacy, before and under the Xi government which defined the new era of Chinese diplomacy. Additionally, the effectiveness of the IR and FP since Xi's first term will be examined to demonstrate the future diplomatic development trajectory—evaluating Xi's tendency to blend IR and FP and the way it has changed China's diplomatic standing. Indeed, the different connotations that are exclusive to the Chinese sociocultural understanding will be addressed according to the changes in national interests, international networks and China's growing reputation and influence in the global world order.

Various sources were utilised to support the enquiry, including official state documents ranging from the 'selected works of previous leaders' and newspaper reports such as the 'People Daily', 'Xinhua', 'South China Morning Post' and 'China File'.

Additionally, interviews with three former diplomats were included to corroborate specified references to Chinese diplomatic practices, including the paradigm shift from IR towards FP. The meeting of the ‘Diplomacy Small Group’ in 2014 which facilitated the creation of the new diplomatic agenda is further analysed to distinguish how the Chinese characteristics were filtered into traditional diplomatic efforts—a feature which will be examined from a number of conflicting perspectives. Finally, the efforts of the BRI plan and its successes thus far in renegotiating diplomatic and political relations will be determined with reference to Xi’s continued attempts to manoeuvre China to the fore of world diplomacy.

2 Understanding the Diplomatic Divide: Mao and the War with Russia

When we try to understand diplomacy in China, it is necessary to acknowledge the underlying meaning and significance of the Chinese character. As Fairbank rightly mentioned, Western discourse often tended to ignore the effectiveness of ‘Sinocentrism’ as a potent social and cultural force, with little efforts to understand the true meaning of what was ‘walled off in East Asia behind the barrier of the Chinese writing system’ (Fairbank 1969; pp. 460–461). Effective diplomacy warrants the need for equally effective methods of translation. Avoiding miscommunication is regularly perceived as being central to a reciprocally beneficial engagement, yet, the ‘Chinese language’ remained known for its inherent ambiguity, with its true meaning enclosed behind these walls (Pillsbury 2016; pp. 5). As a result of this ‘code like complexity’, several comments pertaining to Chinese diplomacy have since been subject to misinterpretation by Western academics, resulting in the implications of IR and FP becoming misconstrued.

Before Xi, Chinese diplomacy had been predominantly based on ‘*guanxi*’, grounded on individually packaged relations with neighbouring countries. Chinese characters (or sinograms) can be best considered as being ideographs which represent intrinsic ideas, and this idea is dependent on the following conditions: who mentioned it, when, where and why it was mentioned. This is equally applicable when considering the situational policy processes relevant to international diplomatic practices. As a member of the traditional Chinese intelligentsia, it was needless to say that Mao had a preference for conveying his ideas in such a way, often using four or eight word sets to express his views on contemporary international issues. Characterising international affairs through expressions more than words was therefore a practice that was sown by Mao, cultivated by Zhou and nurtured by Deng. Generally speaking, this broad method of interpretation continued to be utilised by their successors up to and including the current Xi administration. As such, it is crucial to investigate the embedded meaning behind this sinographic approach behind Chinese diplomacy, in order to accurately envisage the intentions behind past and present strategic initiatives.

As a newly independent country after the Empire period, China rushed to form a proper network of relations with their neighbouring countries. Traditionally, as a middle country (*zhounggur*), China was keen to adopt a policy that was closer to '*guanxi*' rather than '*zhengce'* (policy enforcement). This was as it was a common understanding that friendship need not be maintained by foreign policy, which should instead be left for the enemy. China did not have any known enemies across their borders until the near end of the Qing dynasty.

IR in China had previously been shaped by the 'Old Diplomacy' ideology, which was mainly reliant upon the views of several technocrats, since the foundation of China in 1949. According to Lanteigne (2009), during the Mao era, Chinese IR was guided by five principles: peaceful co-existence, mutual respect for individual sovereignty, non- interference, non-aggression and mutual benefit. Although this has yet to be explored clearly through Western terms, it is evident that all the five principles were largely based on the interconnectedness that was a key feature of '*guanxi*'. Despite having very few diplomatic relations during that time, China was nonetheless involved in a number of international political issues, especially in relation to Third World affairs. Mao further became an iconic political figure across the Americas and throughout Africa, where he was deemed as being a symbol of the future of Sino-African diplomatic relations. Under Mao, the goal of China's IR was effectively relayed by Zhou, whose efforts as shown during his speech to the first group of Chinese diplomats, where he emphasised that 'states should keep good faith and coexist with mutual respect rather than suspicion and distrust' (Zhou 1990, as cited in Li and Fan 2021; pp. 214) were integral in forming China's diplomatic framework. In turn, under Mao, Chinese IR can be categorised into the period before and after the '*Zhenbao* (Damansky) island border clash' incident in March 1969.

Incidentally, Mao adopted a multi-polar approach towards Third World IR particularly in relation to Asian and African nations. Beijing considered such relationships to be closer to that of family. During the 1950s, Mao described the bond between China and the USSR as being similar to that between the '*laodage'* (respectable eldest son) and '*laoer'* (second eldest son), later referring to these countries as the 'brother party' (Mao 1994; pp. 322–345). Under relatively weak economic conditions, Mao pursued a policy of reciprocal learning from the Soviet Union (*xiangsu yibiandao*), via the Sino-Soviet Treaty of Friendship, which strengthened the political and economic alliance between the two populous nations providing guarantees of mutual assistance. From the outset of the alliance in February 1950, it was clear that one of the primary expectations was China's participation in the Korean War, which affected them both economically and proved to be politically unsettling for Mao's regime. Yet, the brotherhood between the two countries was maintained with both Li Peng and Gorbachev reinforcing the agreement further down the line (Radchenko 2019; pp. 279). This sense of transnational kinship provided an early indication of the Chinese character in foreign diplomacy, which remained constant throughout the transition from IR to FP.

In comparison with their Western counterparts, the Chinese IR doctrine was mainly based on equality and the sharing of interests rather than the promotion or imposition of Chinese ideologies and models of domestic governance (Kivimaki

2014; pp. 429). One of the most well-known diplomatic announcements was the 'Five Principles of Peaceful Coexistence' of 1954 and the then 'Bandung Doctrine' by Zhou, both of which paved the way for modern Chinese foreign policy. It was routinely emphasised that China's pursuit of IR was to be done in line with 'anti-hegemonic' ideals, in an effort to avoid a Cold War like confrontation. One of China's longest serving allies and neighbour, North Korea, was a testament to this approach. During the meeting between Kim Ilsung and Deng after the Tiananmen Crisis, Kim repeatedly outlined that at no point had China attempted to enforce any domestic ideas to his regime (Deng 1982). This specific political movement was later interpreted as being the 'doctrine of peaceful coexistence', which involved convincing others of the usefulness of mutually beneficial economic state-to-state cooperation (Yue 2008; pp. 442). The core of Mao's international alliance was in fact to engage with the 'enemy of the enemy' to expand China's strategic presence (Amako 2014; pp. 12). Based on this belief, Mao went on to develop his 'Intermediate Zone Theory' and 'Third World Theory' simultaneously, the effects of which were manifold.

Under Mao, Chinese IR sought to replicate the revolutionary land reform measures that were introduced in late 1947. Mao repeatedly stressed that satisfying the demands of the poor who were mainly concentrated around agriculture would provide the foundations for successive, exponential growth. Next, uniting this group with the rest of the social hierarchy through the consideration of their collective interests was in his eyes essential for prolonged development (Mao 1994, vol 10; pp. 105). Similarly, his IR was divided into two parts, the Third World countries, which needed China's support and the lesser powerful yet strategically placed countries who had been unwilling to side with any of the Western superpowers. His tentative approach eventually succeeded, allowing China to attain permanent membership of the UN Security Council in 1971 in recognition of their role in world diplomacy.

Taken together, Medeiros and Fravel's analysis of Mao's eccentric foreign policy stands, which was known for its bombastic language, strong opposition to the superpowers (the USA and the Soviet Union), in close association with developing countries and indeed economic autarky (2003; pp. 24).

3 Deng: Navigating Diplomacy Through the Tiananmen Square Protests of 1989

How can one discern the differences between the IR of Deng's regime in comparison with the time of Mao? Deng made it clear from the outset that his diplomatic goals were to preserve and develop the work of Mao. Following on from Mao's 'Intermediate Zone Theory' which gave China a commanding role in Third World politics, Deng soon announced the '*dasanjiao*' ('grand triangle'—involving China, the USA and the Soviet Union) strategy, involving a collective consideration of each country's strategic interests (Dittmer 1981; pp. 485). This strategic triangle was subject to the following preconditions; one, all participants must always recognise and accept the strategic salience of the three principals. Each of the participating nations was permitted to concurrently engage in alternative agreements; yet, these were at best supplementary to the central alliance. The other was to consider each other on equal terms, irrespective of their economic or strategic significance. As such, the relationship between any of the two participants was simultaneously influenced by each player's relationship to the third (Dittmer 1981; pp. 490–491). It was a strategically well-framed choice, more so, as each country was steadily emerging from the aftermath of the Cold War era.

As a skilful and pragmatic bureaucrat from both an economic and diplomatic perspective, Deng had sought for a more widely beneficial strategy upon the inadvertent end of the brotherhood with the Kremlin. This tripartite engagement gave him the means to further domestic Chinese interests whilst gradually increasing China's presence abroad. Through what was a successful breakaway from the ping-pong diplomacy that was prevalent during the Mao era, Deng's efforts to replace the USSR as a global power soon materialised with the dissolution of the Soviet Union, which began in 1989.

Despite Washington emphasising that this form of 'triangular diplomacy' was not intended to give the impression that it was using either nation against the other, cracks soon began to emerge in the alliance. 'Hostility between China and the Soviet Union served our purposes best if we maintained closer relations with each side than they did with each other' (Kissinger 1979; pp. 712). Beijing, however, knew how to connect with Washington without going against Moscow's interests. This logic had profound implications for both policy-related and system-derived issues within the alliance (Dittmer 1981; pp. 508). Indeed, few were surprised when the '*dasanjiao*' suddenly disappeared as China was facing systematic problems domestically, during the Tiananmen Square Protests. The abrupt dissolution of the *dasanjiao* drove Deng to transform his IR strategy to maintain a low profile internationally (*taoguang yanghui*, hereafter TGYH), making use of existing strategic ties whilst the internal issues were being dealt with (Schell and Shambaugh 1999; pp. 460–461). This practice of pursuing other motives in times of difficulty was a key feature of Chinese IR, which allowed them to increase their international presence with ease. Under the TGYH, the process of IR policy-making under Deng proved somewhat easier as it promoted a sense of non-confrontational collective development through a policy of 'neighbourhood diplomacy' (*mulin zhengce*).

Until 1992, Deng struggled to manage the immediate internal political and economic challenges that had emerged as a result of the collapse of the USSR. This has culminated into widespread demonstrations which were deemed to be the catalyst behind the revolt in the spring of 1989. Deng's diplomacy was essentially limited to taking small steps to try and repair the damage that was done to the country's reputation and to steadily reduce the diplomatic isolation they faced, given the international outrage at how the military were used to violently crack down on the dissenters in Tiananmen Square.

Under Deng, Chinese IR took a completely different turn from that of his predecessor. Chinese international communities proceeded to open up, achieving massive economic reforms and successfully modernising their domestic market. Eventually, a 'socialist market economic system' was introduced, adopting free economic trade zones across the southern parts of Asia, which led to the formation of the four Asian Tigers (Kim 2020; pp. 142). In order to achieve their economic growth prospects, Chinese diplomacy during the 1980s set out to establish favourable relationships with any given country—regardless of its commanding social ideology (Chen 2005; pp. 46). Between 1988 and 1994, China opened IR talks with 18 countries and further started to adopt various levels of partnerships to promote economic and regional security coordination. Unlike Mao's ideology-based IR, Deng chose the more pragmatic route towards enhancing the economic benefit for China. One of the main IR goals under Deng was clearly explained by Deng's senior advisor for diplomacy, Chen Qimao. He mentioned that 'weak countries do not have diplomacy' (Ito 1995; pp. 4). Deng, in this sense, did not want China to be an economically 'weak country'.

Deng's IR approach clearly seemed to work in accelerating Chinese economic development, and he was soon considered as being a leading pragmatist by the west. Deng's way of conducting diplomacy was, however, representative of the Chinese character that was fashioned by Mao. Indeed, Mao once described Deng's personality as a 'needle wrapped in cotton' (Schell and Shambaugh 1999; pp. 531). Even Kissinger acknowledged that Deng was 'the reformer of elemental convictions who reflected a tradition of painstaking analysis', evidenced through Deng's ability to distinguish between what was tactical and what remained permanent (1994; pp. 727).

As founding members of the PRC, Mao and Deng represented two major pillars of Chinese diplomacy, establishing Third World politics in order to enhance the image of the brand new China—led by Mao and the process of 'opening up' economically post the Tiananmen Protests, as introduced by Deng. Alongside his 'emancipate the mind, seek truth from facts united as one in anticipation for the future' slogan, which was aptly summarised by Qiushi as '*shishi qiushi*' (Deng 2013, vol 2), Deng successfully manoeuvred China to the forefront of global diplomacy. Deng's main goal of IR was primarily centred around a form of 'economic diplomacy' that used economic means as tools to achieve both diplomatic and economic purposes (Zhang 2015; pp. 5). As Deng so often stressed that 'weak countries do not have diplomacy' (Ito 1995; pp. 4), he intended for China to be recognised as a strong potent force, capable of catching up to the Western powers. This initiative was promptly achieved.

4 The 'Good Neighbourhood Policy': Collective Progression Under Ziang and Hu

Upon Deng's death, during the Fifteenth Party Congress in 1997, Beijing officially announced that 'managing relations among great powers' (*chuli daguo guanxi*) was China's main goal of diplomacy going forward. However, this paradigm abruptly triggered by external circumstances beyond the party's control. The Asian financial crisis unwittingly pushed Chinese produced exports to Western countries, increasing levels by 16% and 18%, respectively, in 1998, with the total value of Chinese exports to areas outside of Asia exceeding US$76 billion in the first eleven months, rising by a staggering 14.9%. The rapidly increasing trade volumes gave China the means to support the domestic economies of their neighbouring countries, making way for their eventual application to the WTO.

Joining the WTO in 2001 was hailed as a huge diplomatic success that was orchestrated by Ziang Zemin. He was further recognised for his efforts to stabilise China's currency, contributing towards their regional recovery in 1999 which allowed China to increase their credibility to global institutions. This was evidenced by their invitation to take up full membership at the WTO in 2001. Consequently, this permitted Jiang to strengthen China's brand internationally, which directly correlated to the increase in economic activity. Despite the fact that the Sino-Russian Strategic Partnership was first agreed in April 1996, Jiang refused to play the *dasanjiao* strategy, contrary to his predecessor given that he was aware of the economic burdens that were involved in maintaining diplomatic relations with a historical ally. It was also this period of sustained economic growth that allowed China to secure the bid to host the 2008 Summer Olympic Games in Beijing—steadily growing their brand to a now globalised audience.

Following on from a formidable leader like Deng, Jiang had very little ability or space to manoeuvre politically or indeed diplomatically, with the shadow of Deng looming over his regime. Within the parameters of diplomacy, he outlined his intentions through the '16-word Directive', building on what Deng had initially designed. Yet, it was the external environment that again forced Jiang to strengthen relations with countries individually, rather than through their collective blocs. Under Jiang, China participated in several bilateral engagements pertaining to trade and security issues across the world and soon began to attract multinational institutions through their membership of the WTO. One of the most significant changes during this period was that the IR decision-making had become institutionalised, due to the complications in their international affairs. In turn, sophisticated procedures were developed within the Communist Party in an effort to reconcile international relations with domestic policy initiatives.

Alternatively, the Tiananmen Square Protests in 1989 isolated China diplomatically and politically with the rest of the world. As such, after the crisis, China began to build a new network of international relations, which was known as the 'Treaty of Good Neighbourliness and Friendly Cooperation', which was again signed with Russia in 2001. Additionally, China began to hold an annual Association of Southeast Asian Nations (ASEAN) meeting and developed the ASEAN + 3, inviting China, Japan and Korea to its circle. In addition, China strived to strengthen ties with Europe, forming the Asia–Europe Meeting in 1996 and even signalling their intentions to engage with NATO's military activities in 2002.

Nonetheless, the most recognised event that signified Jiang's IR was the resolution of the ongoing territorial disputes that had historically been the source of much tension between China and her neighbouring countries. Since 1991, China had a number of border issues flare up with countries such as Kazakhstan, Kyrgyzstan, Laos, Russia, Tajikistan, Vietnam and India. Hence, in an effort to promote diplomatic camaraderie, China willingly conceded on the majority of these negotiations, often receiving less than half of the contested territories. For instance, China took only 1000 of the contested 28,000 km^2 of the Pamir Mountains from Tajikistan. As a result, China's previously long land border which had been the site of many of the country's major wars had now become stabilised.

In terms of providing an institutionalised approach on IR, *Zhongnanhai* ordered the creation of a leading focus group, which was later known as the 'National Security Leading Group' (*Guojia Anquan Lingdao Xiaozu*). They were instructed to provide a comprehensive oversight into various global issues, in an effort for China to consolidate her relations with countries across the globe more effectively. Additionally, the role of the Foreign Ministry was also strengthened, as they gradually began to enlist the help of specialists and technocrats. The majority of the senior and mid-level diplomats had spent substantial periods stationed overseas, spoke at least one foreign language fluently and held graduate degrees from leading US academic institutions. The Ministry also started to recruit mid-career transfers from other agencies such as the PLA, CCTV and expatriates from state-owned companies to deepen its influence and expertise in different areas. Under Ziang, such Chinese characteristics of public diplomacy were established, which soon became the bedrock of IR and later on the FP.

This tradition was extended with Hu's appointment as the next President of China in 2004. His tendency to conceal his diplomatic intentions in his expressions were evident in his jargon; expressions such as 'responsible Great Power' (*fuzeren daguo)*, 'multi-lateralism' (*duobian zhuyi*), 'good neighbourhood policy' (*mulin zhengce*), 'democratisation of international relations' (*guoji guanxi mingzhuhua*), 'peaceful rise' (*heping jueqi*) and 'harmonious world' (*hexie shijie*) were frequently the subject of his rhetoric. Although these were in practice broad and vague concepts, as Qian Qichen (Foreign Minister 1993–2003) later explained, this gave Zhou the leverage to fashion out his own interpretations of world politics and diplomacy, which further became the theoretical basis for the new era of Chinese foreign policy.

Hu opted for a far more reserved international profile during his administration, which became the new norm in Chinese IR right until Xi was appointed as the new Premier. Indeed, again referring back to Chinese linguistic nuances, international relations are based on maintaining relationships among friends; however, foreign policy (diplomacy) was invented to talk to enemies, not friends (Mahbubani 2020; pp. 21). Chinese diplomacy until Xi's first term in office was reliant on the practice of 'selling in cooperation with China…rather than in the Chinese way' (Kivimaki 2014; pp. 430). It was through this that China successfully negotiated her way into the global diplomatic platform. Again, what was noteworthy about Hu's IR was the streamlined decision-making processes, which were highly dependent on 'multiplicity' (Hsu 1999; pp. 198). Although Mao, Deng and Ziao were powerful leaders in their own right, each employed a vastly different persona when dealing with international affairs. Similarly, Hu favoured the direct TGYH approach which had proven to deliver positive results (Jianchi TGYH, *Jiji Yousuo Zuowei*) (Amako 2014; pp. 17).

Finally, it was Hu's policy of the 'good neighbour' which provided the framework for China's diplomatic dexterity that was evidenced throughout Xi's Fifth Generation leadership. From the outset in 2012, Xi sought to build on the rapport that was created through the rhetoric of his predecessors whilst further expanding China’s influence abroad. This led to the emergence of fresh diplomatic terms such as the ‘new type of great power relations’ (*xin xing daguo guanxi*). It also seemed to demonstrate a willing acceptance by the leadership hierarchy to portray China as being a ‘Great Power’. It was through such means that China eventually gained acceptance among the other so-called Great Powers, through the sharing of ‘common core interests’ (*hexin liyi*) in the Asia–Pacific. It was clear that China was now ready to take a more commanding role in maintaining regional leadership, increasing the possibility of hegemonism in the east. Similarly, Xi’s revised rhetoric had a more compelling undertone than the prior ‘responsible great country’ catchphrase that was used in conjunction with the ‘good neighbour’ policy. Ultimately, Xi’s regional strategy was a step forward from Hu’s more reserved approach, but was nevertheless symbolic of China’s renewed role at the fore of global IR.

5 COVID-19 and the Evolution of the Chinese Character

In China, there is a general understanding that every incident does not occur without reason. As one of the world’s largest countries who has overcome a countless number of wars and conflicts, the ability to manage risk had been incredibly well refined. Since the outbreak of the global pandemic in 2020, China responded immediately and effectively and eventually managed to curb the spread of the virus through a series of enforced lockdown measures. Despite their domestic successes, China faced immense criticism globally—led by the then US President Donald Trump, who insisted that China had failed to take the necessary measures to ensure that the disease did not spread beyond its borders, instead opting to suppress information that could have been used to eradicate the virus in its early stages.

Globally, it was widely believed that the Chinese government was to blame for the spread of COVID-19, and it was deemed a diplomatic crisis given that their BRI and AIIB plans had only recently began to gain traction. The initial reaction of the Chinese government was however to aggressively promote their ‘health-based silk road’ initiative—providing masks and PPE across the world in an effort to mitigate the collateral damage. Building on their extended record of providing overseas development assistance in health care (DAH) which first started in Algeria in 1963, they sought to gain support for their diplomatic endeavours through the provision of medical support. Much like Zhou’s earlier work to enhance diplomatic ties by dispatching Chinese medical teams to Africa during the 1960s and 1970s, Xi achieved varying levels of success through his direct response programme (Kim 2019).

Ultimately, COVID-19 has gifted the Chinese government with the platform to renegotiate their diplomatic standing with countries across the world. During the first round of the ‘mask diplomacy’ initiative, the president of Serbia, Alexander Vucic, proceeded to kiss the Chinese flag—and referred to ‘Brother Xi’, which soon became the subject of tweets globally. In order to salvage his administration’s reputation, however, Xi has since dispatched teams and supplies to 90 countries, donating US$30 million to the WHO also, to support developing countries in the fight against the virus.

In early December 2020, the United Arab Emirates (UAE) and Bahrain were the first countries to approve of a Chinese made COVID-19 vaccine. Other countries, especially in the south, soon followed suit. In comparison with the struggle over securing the Western sourced vaccines, China's productive capacity was critical in their efforts to engage in widespread vaccine diplomacy. As such, despite questions about its supposed efficacy, it is clear that China will continue to play a crucial role in vaccinating the global population. Conveniently, this corresponds with the narrative that was propagated by the Chinese leadership hierarchy which follows on from the ongoing notion that China is a great and responsible global power. In such a way, the pandemic has offered a tangible way for China to combine Xi's extravagant BRI project to their efforts to tackle the virus. Health care remains one of the core pillars of the BRI initiative, with the early provisions listing components that directly targeted the collective promotion of accessible health care. Similarly, ranging from the 'Vision and Actions' section to the 'Twenty-First-Century Maritime Silk Road' strategy, mutual cooperation to overcome infectious disease outbreaks jointly was always on the agenda. Additionally, official BRI documentation further includes reference to the following under the banner of health-derived cooperation:

- Emergency medical relief for domestic and international crises;
- Training programmes for medical personnel;
- Free treatment abroad by Chinese doctors
- Capacity building for public health crises;
- The promotion of Traditional Chinese Medicine (TCM).

Included in the general framework for the Belt and Road Initiative are the 56 bilateral health agreements that China have concluded with domestic and international health agencies, as well as the Bill and Melinda Gates Foundation and the WHO. The BRI Standardisation Action Plans of 2015–17 and 2018–20 further illustrated the Chinese efforts to promote the use of TCM globally, whilst setting the revised standards for medical terminology. Indeed, the BRI Development Plan for the advancement of TCM (2016–20) outlined Beijing's ongoing roadmap to internationalise the use of Chinese-derived forms of medicine. In this sense, the Health Silk Road is indicative of the strategic dexterity of the BRI programme, effectively coordinating domestic and global engagements through the so-called China + x mechanism. This also provided the sketch for various cooperation policies with among others, countries from the Association of Southeast Asian Nations (ASEAN) bloc, Africa (FOCAC), Central and Eastern Europe (17 + 1) and the Arab League. Within this remit, despite the existence of regional differences, cooperation in health care has given China the means to rapidly expand Xi's BRI plan around the world.

Unlike the USA, China was an early backer of the COVAX programme—the vaccine partnership that aims to subsidise access to the COVID-19 vaccines for poorer countries whilst ensuring that they were distributed equally. Much like his predecessors, Xi endeavoured to generate support for his policies by appealing to countries that were likely to be more dependent on China's economic leverage. Soon enough, Xi proudly announced in his address to the president of France that they were in the midst of creating a 'community of common health for mankind' (State Council Information Office, June 2020), with China becoming the main supplier of the 'global public good' project in light of the pandemic at a 'fair and reasonable price'. In comparison with the USA, whose Health Secretary emphasised that their vaccine supply would only be shared once all the domestic needs had been fulfilled, and China once again presented themselves as a responsible and global power (Reuters 2020).

Since the pandemic, Xi adopted a two-tailed diplomatic strategy; from a 'hawkish FP' to a 'dovish IR', stressing the need for the global community to 'work together to build a shared future' by tackling challenges and embracing opportunities together. The BRI policy was an example of such a strategy, providing many countries with the opportunity to be a part of this forward-thinking movement (Wang 2020; pp. 9). This was a clear signal that Chinese diplomacy intended to function through two opposing frames; with the hawkish FP being directed at Western countries including Australia and a dovish IR policy for 'emerging economies'—many of whom have pledged their support for the BRI.

In terms of the credibility and effectiveness of their vaccine, China is still far behind the Western suppliers such as Pfizer, Moderna and AstraZeneca. Despite being approved by several emerging economies on the basis of its lower price and availability, China has yet to reach the same levels of public confidence. Nonetheless, Chinese vaccine-related loan schemes to Latin America and the Caribbean have soared, exceeding USD$1 billion, and was welcomed by the WHO as a crucial addition to the 'global public good' plan. Additionally, China has made considerable progress with their efforts to engage in vaccine diplomacy. With the Trump administration's departure from the WHO membership, Xi went on to present the Chinese character-based vision at Davos in 2017, illustrating that China was ready to step up and fill the superpower role that had been vacated by the USA. Ultimately, this was a successful effort by the Chinese political system to promote national economic development whilst salvaging their international reputation (Roy 1997).

In order to avoid an ideological confrontation with the west, it was deemed necessary for Beijing to pursue an alternative strategy from their traditional IR policy. Diversification through health diplomacy allowed China to circumvent the potential technological and economic sanctions that would have likely been imposed by the Western alliance in the case that China opted for a more assertive form of diplomacy. Despite the growing appeal of the BRI, China needed the pandemic to renegotiate and maintain their new-found international status. According to the national newspaper, Xi declared that a 'clean government is the moral principle and the legal red line that we should never cross in Belt and Road cooperation' (Daily 2019). The absence of diplomatic clarity had previously been subject to much concern by both members of the BRI and indeed the west, given Xi's preference to implement policies with great caution. As such, in light of the initial failures of 'mask diplomacy', it is necessary for China to adopt a more synchronised strategy going forward rather than relying on the old 'friend or foe' values that were popular in the years past.

6 Conclusion—The Road Ahead for the BRI

Conventionally, the Chinese attitudes to international diplomacy were derived from their traditional culture and ideology. Under Leonid Brezhnev, Mao complained to the leader of Romania, Nicolae Ceausescu and said that '…you (the Soviet Union) piss on my head and I should respect you? …no matter who tries to persuade us (to mend fences), we won't move. The more they talk the worse relations will become…' (Radchenko 2019; pp. 278). Trump's attitude towards China showed many similarities. His continued efforts to engage in confrontation forced Xi to adopt a more hawkish foreign policy that was designed to maintain China's international and domestic interests.

Taken together, the Chinese efforts to bridge the diplomatic and international divide were consolidated through the events of the pandemic. Wang Yi, the Minister of Foreign Affairs, exclaimed during the 'Symposium on the International Situation and China's Foreign Relations' in 2020 that 'China will enhance friendly interactions with the rest of the world. We call on all countries to overcome differences, seek common development, and facilitate the exchange, mutual learning and harmony among civilizations. As we celebrate the historic 100th birthday of the CPC, we will better communicate to the world the CPC's track record of governance, the Chinese people's extraordinary journey towards the Chinese dream and China's commitment to peaceful development' (Wang 2020). As such, he pledged that China would seek to develop more of a mutual understanding with the rest of the world and in turn requested for a more objective consideration of the Chinese character and the CPC. Hence, the BRI signalled the beginning of the new phase for Chinese diplomacy, one that Xi is attempting to use to substantiate China's role as the world's responsible superpower. Contrary to the USA, whose tone is susceptible to rapid change based on the ruling administration, he sought to reaffirm that Chinese diplomacy was wholly focused on 'being a great power' and ensuring that countries allied to them would benefit from their collective growth.

Based on the results of a recently published PEW report, the countries that had specifically been targeted by Xi's foreign policy were more reluctant to actively engage with the BRI. Alternatively, countries who had been subject to international relations initiatives were largely in favour of Chinese state diplomacy, given the mutual benefits that had been derived from the BRI and AIIB membership.

On the 11 January 2021, Xi mentioned during his visit to the Central Party school that '…judging from how this pandemic is being handled by different leaderships and (political) systems around the world, (we can) clearly see who has done better'. Despite experiencing success domestically, it is crucial that China seeks to recalibrate its diplomatic efforts to ensure that a more streamlined approach is taken towards consolidating their domestic and international endeavours.

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BRI Collaboration Through the Business Sector

In Fear of Trojan Horse? China's Cross-Border Acquisitions in Europe Amid the One Belt One Road Initiative

Julan Du and Yifei Zhang

Abstract This chapter provides a dynamic view of Chinese overseas direct investment in the form of cross-border mergers and acquisitions (M&As) in Europe before and after the inception of the One Belt One Road Initiative (BRI). We analysed that the number and value of China's merger deals in Europe increased rapidly in 2014−16, but declined in 2017−18. Comparatively speaking, the decline in the BRI-member European Union (EU) countries was smaller than in the non-BRI-member EU countries. We further examine a series of M&A characteristics, finding that the BRI in practice helped to slow down the occurrences of incomplete deals and hostile acquisitions, facilitating instead-incremental acquisitions, majority-stake acquisitions, and non-state-owned enterprise (non-SOE) acquisitions. Our findings suggest a significant change in the pattern of Chinese cross-border M&As around 2017 following the growing suspicions and wariness of Europe toward the expanding presence of Chinese capital in Europe. Such practices will be addressed in line with the changing global attitudes towards China-led economic objectives, evaluating the potential for future pan-European strategic collaborations.

Keywords M&As · BRI · Non-SOE · Chinese capital in Europe · Chinese pan-European strategies

1 Introduction

In China's economic ascendancy amid the globalization process, the European Union (EU) and Europe in general are a key partner. The economic weight and technological achievements of the continent mean it can play a critical role in the global balance of power depending on the extent to which it leans toward the USA or China. Over the past two decades, China's rapid economic development and its central role as a

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Y.-C. Kim (ed.), *China and the Belt and Road Initiative*, Understanding China,
https://doi.org/10.1007/978-3-030-86122-3_5

driver of globalization have led to expanding economic ties with the EU. Between 2000 and 2019, the volume of trade between China and the EU expanded nearly eightfold to EUR 560 billion. China has become the EU's second-most important trading partner behind only the USA. At the same time, China's increasing innovation power and dynamic markets start to shape corporate decisions in Europe and amplify their exposure to Chinese pressure. The growing mutual economic dependencies are fully manifested in the COVID-19 pandemic. Europe critically depends on Chinese imports for the pharmaceutical, chemical, and electronics sectors (Zenglein 2020).

The strengthening of the economic linkage between Europe and China in the past two decades is partly attributable to the launch of the One Belt One Road (BRI) initiative. China's overseas direct investment (ODI), primarily mergers and acquisitions (M&As), rose significantly in the BRI-route countries including Europe. In the very first few years after BRI's inception, the BRI plan seemed to be well received by the BRI-participating countries, and Chinese investors considerably increased their presence along the BRI-member countries, especially the continental-route ones. Our initial exploration (Du and Zhang 2018) shows that Western Europe, Eastern Europe, Central and West Asia, and Southeast Asia absorbed the majority of Chinese overseas acquisitions in 2013–15. This gives the public an impression of a rapidly growing presence of Chinese capital in Europe.

Nevertheless, a warning sign appeared in the most recent several years: The BRI initiative has met growing suspicions in the international community. Cases of BRI-related contract disputes and project cancelation propped up from time to time and from country to country. Europe is no exception. As the biggest developed area along both continental and maritime routes of the BRI scheme, European countries are increasingly divided in their attitudes toward BRI and China. In April 2018, it was reported that 27 out of 28 EU ambassadors to China signed a report criticizing the BRI initiative.

In this study, we analyze the dynamics of China's ODI in the form of cross-border M&As in Europe, with EU as a focal point. We find that the number of China's acquisition deals increased rapidly from 2014 to 2016 in both the EU countries and the non-EU European countries, and in both BRI-participating EU countries and non-BRI-participating countries, but then largely declined afterward. The aggregate value of China's merger deals reached a peak in non-EU Europe in 2016 and in the EU in 2017 and then dropped. The BRI-member EU countries displayed an increase in China's merger deal value in 2018, while the non-BRI-member EU countries produced a precipitous decline in 2018. We therefore detect a change in the trend of the growth in China's cross-border M&A activities in Europe in most recent years, which largely confirms our observations and various pieces of anecdotal evidence.

We also examine three mega regions in Europe: Western Europe, Eastern Europe, and Russia to explore the regional variations in the pattern of receiving Chinese overseas merger deals. Somewhat surprisingly, both Eastern Europe and Russia displayed a sharp reversal in the number and value of China's overseas merger deals around 2016–18, while Western Europe experienced a smaller volatility in these aspects. This suggests that the slowdown of Chinese BRI-related expansion to Europe was not concentrated in the key European powers in Western Europe only; there was a widespread decline in Chinese investment across Europe.

In the empirical analysis, we conduct difference-in-differences (DD) analysis to compare China's acquisition deals in Europe with those of the six leading acquiring countries in each year of the post-BRI period (2014–18) relative to the pre-BRI period (2011–13). This method allows us to assess the relative changes in the flow of Chinese ODI to Europe compared with that of the world's leading acquiring countries, which helps produce a more accurate picture by controlling for the worldwide trend in cross-border M&A flows. Our analysis provides a fairly consistent finding that the number and value of China's merger deals in the EU countries, the non-EU European countries, the BRI-member EU countries, and the non-BRI-member EU countries increased rapidly in 2014–16, but declined in 2017–18. Comparatively speaking, the decline in the BRI-member EU countries was smaller than in the non-BRI-member EU countries, showing the relative resilience of the BRI program in facilitating Chinese ODI.

We further examine a series of M&A characteristics including completed deals and incomplete deals, friendly deals and hostile deals, full ownership, majority ownership, and minority-ownership deals, new deals and incremental deals, and state-owned enterprise (SOE)-initiated deals and non-state-owned enterprise (non-SOE)-initiated deals. We find that BRI helps slow down the occurrences of incomplete deals and hostile acquisitions and facilitates incremental acquisitions, majority-stake acquisitions, and non-SOE acquisitions.

Our findings point to a salient change in the pattern of Chinese cross-border ODI around 2017 following the growing suspicions and wariness of Europe toward the expanding presence of Chinese capital in Europe and the strategic objectives behind China's BRI. The European business community also complains about the lack of reciprocal treatment for European companies in gaining wider access to the Chinese market.

With more than four decades of economic reform and opening, China has grown into a major global economic power. The advanced economies are increasingly demanding that their economic relations with China be built upon reciprocity and mutual benefits. When seeking the access of Chinese capital to the European market, China should considerably ease the access of foreign businesses including those from Europe to the Chinese market, maintain a level playing field for foreign capital, and improve business environment and institutions.

The remainder of the chapter is organized as follows. Section 2 discusses some conceptual issues about the relationship between BRI and Europe. Section 3 describes the data and variables. The empirical methodology is laid out in Sect. 4. Section 5 provides an overview of the pattern of China's M&A deals in Europe. Regression analysis is carried out, and results are discussed in Sect. 6. Section 7 concludes the chapter with a reflection on the path to the future.

2 BRI and Europe

The BRI is a grand plan of China for a peaceful development of the Eurasian connectivity. It represents opportunities for Europe. It will also help China to expand its influence in the vast Eurasia region in future decades. It couples well with the European Commission's Investment Plan for Europe (IPE), i.e., the Juncker Plan, announced in November 2014, a large investment program aimed to attract investments.

In March 2015, UK, Germany, France, and Italy joined the Asian Infrastructure Investment Bank (AIIB), the BRI's main multilateral bank established under the auspices of Beijing. It was widely acclaimed as an epoch-making gesture of confidence, enthusiasm, and friendliness made by these major European powers, which manifested their endorsement and acceptance of China's contribution to global development, its rising status in the world stage, and its role in the world order.

Encouraged by the launch of BRI, a massive flood of Chinese investments in Europe is followed and a fast-increasing presence of Chinese capital in Europe is observed. For example, ChemChina invested \$7 billion to acquire the Italian tire maker Pirelli and completed with the participation of the Silk Road Fund in financing, which was a newly established state-owned investment fund aimed to foster investment in countries along the BRI. Since BRI is an infrastructure-based international economic cooperation scheme, the most relevant infrastructural projects of the BRI from the European perspective are railways and ports. The BRI's investments in railway and port infrastructure are expected to promote and facilitate intercontinental trade between China and Europe by lowering transportation costs and increasing trade volumes. New connections are believed to help develop trade and have an impact on each European country's trade turnover with Asia.

In the years following the launch of BRI, major BRI infrastructure projects started to take shape in Europe. Nevertheless, the growing Chinese presence in Europe started to stoke grave concern and suspicion over the intention of the BRI program. So far there is no unified policy framework within the EU or Europe on how to cope with the BRI scheme. Actually, the European countries and even EU countries displayed a varied pattern of attitudes toward BRI. Several EU countries and cities have been particularly receptive to Chinese investors. Others have been more cautious, seeking guarantees from China that it will follow international standards and not pursue exclusively its geostrategic interests.

China has built up growing economic relations with the frontier states in Central, Eastern, and Southeastern Europe. One of the key initiatives has been the cooperation between China and Central and Eastern European Countries, manifested in the China-CEEC/16 + 1 scheme, which includes both EU and non-EU nations, encompassing such countries as Albania, Bosnia–Herzegovina, Bulgaria, Croatia, the Czech Republic, Hungary, Macedonia, Montenegro, Poland, Romania, Serbia, Slovakia, Slovenia, and the Baltic States. These countries have met regularly at summits, and one of the key projects has been the Budapest–Belgrade Railway.

In contrast, EU leaders in Brussels and the leaders in France and Germany have displayed caution and wariness. These leaders have expressed a mild skepticism toward the BRI, fearing that China is using its economic muscles to make inroads into Europe and potentially divide it. The EU is concerned about the issues of reciprocity and access to the Chinese market for European companies. Despite several years of negotiations, there is still no bilateral investment treaty, and European companies have found it increasingly difficult to do business in China. Year after year, the EU Chamber of Commerce in China has expressed its dissatisfaction about the difficulties foreign firms encounter and concerns shared by the American Chamber of Commerce.

In its report released on January 16, 2020, the European Union Chamber of Commerce in China (2020) suggests European companies have not reaped substantive benefits from China's BRI. Through surveys and interviews with Chamber members, the report complains that European companies have so far played a "peripheral role" in the BRI-related projects. The contentious issues include the insufficient provision of bidding information and lack of transparency of the procurement systems. This lack of transparency and a fair procurement mechanism contributes to the surprisingly low level of participation from multilateral development banks like the World Bank and the AIIB, both of which have very strict criteria for investment. Instead, nearly all of the financing came from China's policy banks, commercial banks, and even Chinese companies themselves. A meager fraction (just 15 percent) of the surveyed European companies have bid on a BRI-related project, and a much smaller fraction won roles in a moderate number of projects. The report finds that a selected few have participated in more than 50 projects, but nearly all who have participated indicate that they played niche roles by providing specific technology or facilitating projects through their extensive experience in emerging markets. It is claimed that this "filling-the-gaps" role is very similar to the perception of European companies of their participation in China's market in general, particularly with respect to public procurement.

In the eyes of European companies, BRI-related procurement contracts are predominately being won by Chinese SOEs, which enjoy extensive state support and a heavily protected market in China and diplomatic support they enjoy when going overseas. Furthermore, the Chinese government is regarded as having for a long time carefully controlled access to its market, in large part to increase the chances of its companies becoming global leaders in certain critical industries. Historically, this posed a problem mainly for foreign companies which were eager to access the Chinese market. With BRI, these problems are now generating externalities and being spread much further afield as many of China's formidable national champions are going abroad after having achieved extraordinary economies of scale. The BRI program is providing them additional support.

Much of the divisions between the EU and the non-EU countries and between BRI-participating countries and non-BRI-participating ones are likely to have stemmed from internal situations in Europe and in EU member states as well as the power hierarchy that exists between the EU member states. Central, Eastern, and Southern European states constitute a majority of the countries that have been most receptive to the BRI. Domestically, most of these governments have typically exhibited Euro skepticism and fierce nationalism and have had to deal with major economic transitions. For those EU member states which are former Soviet republics, there is a tendency to distrust Brussels, which is viewed as diktats from a central authority. The prior experience of the totalitarian control of the Soviet Union makes these countries wary of an overarching authority guiding the direction of Europe. BRI and its associated Chinese investment projects offer them a way to pursue an independent route in international politics and a counterbalance against Brussels' influences (Wong 2019).

Meanwhile, for Southern European countries (Portugal, Italy, Greece, and Spain), after being hit by the global financial crisis of 2008–09 and the resulting Euro crisis, they were in dire need of foreign investment. As these countries have an acrimonious relationship with European financial institutions and their wealthier Northern neighbors, any economic partnership with other global economic powers is viewed as beneficial to the welfare of these nations. Overall, there is a stark divide within Europe and the EU (Wong 2019).

The growing suspicion and even resistance from some European countries toward the BRI are manifested in several cases. One of China's top SOEs is building a high-speed railway line linking Belgrade, the capital of Serbia with Budapest, and the capital of Hungary. Hungary, a member of the EU, is currently under investigation for possible violations of EU transparency requirements in public tenders in relation to the project (Le Corre 2017).

Athens's Piraeus Harbor is another major infrastructure project that has become a representative of China's expanding presence in Europe. In October 2009, Greece leased two docks to the China Ocean Shipping (Group) Company (COSCO) for 35 years. The global financial crisis brought down the transport volume tremendously. In 2014, the Greek government sought to sell a majority stake of the port to finance debt. In 2016, COSCO bought 51% of the port and will acquire an additional 16% stake by 2021, contingent on COSCO making certain investments in the port, including passenger and cruise expansions, dredging, and expansion of the car terminal. As of 2020, the Port of Piraeus is majority owned by COSCO with 67% of shares. COSCO intends to turn Piraeus into one of the largest container transit ports in Europe. With this move, Piraeus provides Chinese companies and goods with a platform to reach the Mediterranean Sea through the maritime route of BRI and the extension of the Suez Canal.

Nonetheless, Brussels was not happy about it. In September 2017, European Commission President Jean-Claude Juncker introduced new investment screening measures for foreign state-owned companies that want to purchase a European harbor, energy infrastructure, or a defense technology firm. It is claimed to be a political responsibility to know what is going on in the EU backyard so that the EU countries can protect their collective security. EU Commissioner Johannes Hahn is quoted as saying that Europe has to beware of Chinese "Trojan horses" Beijing creates by using its financial clout to get political sway over countries. France's President Emmanuel Macron has warned China repeatedly that France and the EU demand "reciprocity" and "fair trade" with China, implicitly criticizing Beijing's sometimes opaque ways of striking business deals (der Made 2019).

In view of the disunited responses of European countries toward BRI and the changing attitudes following the unfolding of the BRI program, we are paying particular attention to the potential differentiation in China's cross-border merger deals in the EU member countries and the non-EU European countries, and the BRI-participating and non-BRI-participating EU countries. We also consider the differences in the pattern of receiving China's ODI in some mega regions such as Western Europe, Eastern Europe, and Russia.

3 Data and Variables

Cross-border M&A data is obtained from Thomson One (formerly known as SDC Platinum). Our sample coverage is from 2011 to 2018. We exclude deals whose values are less than 1 million US dollars because these minor deals may not be meaningful direct investment projects and would create noise in estimating the size of acquisitions. We also drop deals involving China as a target nation. Besides target companies' nation and industry, variables such as government involvement and acquirer's deal sought percentage (ownership shares acquired) are included as well.

Table 1 illustrates the definitions and data sources for all variables mentioned above.

Table 1 Definitions and sources of key variables

Variable	Source	Definitions
Completed deals	Thomson One	Dummy variable and equals 1 if the deal is completed after the deal announcement
Friendly deals		Dummy variable and equals 1 if the target firm's board of directors welcomes the acquisitions
Full ownership	Thomson One	Dummy variable and equals 1 if the sought percent is equal to 100%
Majority ownership	Thomson One	Dummy variable and equal 1 if the sought percent is greater than or equal to 50% and less than 100%
Minority ownership	Thomson One	Dummy variable and equals 1 if the sought percent is less than 50%
Initials	Thomson One	Total log number of deals announced
SOE initials	Thomson One	Total log number of deals that the acquirer's ultimate owner is a state-owned enterprise
Non-SOE initials	Thomson One	Total log number of deals that the acquirer's ultimate owner is NOT a state-owned enterprise
Amount	Thomson One	Total log amount of deals announced
SOE amount	Thomson One	Total log amount of deals that the acquirer's ultimate owner is a state-owned enterprise
Non-SOE amount	Thomson One	Total log amount of deals that the acquirer's ultimate owner is NOT a state-owned enterprise

The list of the BRI countries is from the “One Belt One Road” database hosted by the Chinese Academy of Social Sciences Press (China). The database also provides information about whether a country belongs to the maritime BRI route or the continental BRI route.

Appendix Table 1 lists all the BRI countries and their affiliations to the maritime BRI or the continental BRI blueprint. It is worth pointing out that there is no official list of the BRI-participating countries released by the Chinese government. This is mainly because the group of the BRI countries is undergoing adjustment and expansion over time, and the Chinese government welcomes any potential candidate that is interested in joining the group. Nonetheless, the current list of BRI-participating countries is compiled from various information sources including government documents, which can largely reflect the current situations and should be an authoritative one.

4 Empirical Methodology

To quantitatively gage the dynamic effects of the BRI policy initiative on Chinese outward mergers and acquisitions, we employ an extended difference-in-differences setting (DD strategy) to estimate the effect.

We treat years 2010–13 as the pre-policy period and 2014–18 as the post-policy period. We focus on European countries as target countries. To more rigorously analyze whether the BRI initiative has promoted China’s ODI, we compare the changes in China’s ODI in the European countries following the announcement of this grand national strategy with the changes in ODI in Europe by some other major acquirer countries. In order to construct a meaningful control group of acquirer countries, we select six other countries that initiated most of the cross-border M&A deals in the world M&A market during the sample period, namely Australia, Canada, Japan, Singapore, UK, and USA. Because the firms from the Greater China area (Hong Kong, Taiwan, Macau) are not subject to the BRI policy impact in the same way as Chinese mainland firms do, we exclude all acquisition deals that involve firms in these ethnic Chinese regions as acquirers from the sample.

The acquirer and target countries are listed in the Appendix Table 2. Since we are interested in aggregate M&A activities, we further construct a yearly aggregate acquirer–target country pair balanced panel data sample by aggregating deals according to various criteria specified in the variable description part.

As we are keen to understand the dynamic pattern of Chinese M&A activities in Europe after BRI’s inception, we pay particular attention to the evolution of M&A flows from China to Europe in each year of the post-policy period. The five-year post-policy period (2014–18) may provide us with a general picture of the changes in the overseas acquisition behavioral patterns of the Chinese firms in response to the changing attitude of EU and non-EU European recipient countries.

The extended difference-in-differences (DD) regression equation is specified as follows:

$$\log(\text{M\&A Dep})_{ijt} = \beta_0 + \sum \beta_j(\text{Year}_t \times \text{China}_i) + \mu_{ij} + \eta_t + \varepsilon_{ijt} \quad (1)$$

where the dependent variable, $\log(\text{M\&A Dep})_{ijt}$, is the logarithm of the number of acquisition initiations or the value of acquisition deals by acquirer country i in target country j in year t. Year_t is a set of year dummy variables for the period from 2011 to 2018. The year fixed effects (η_t) capture the effects of, among others, macroeconomic conditions, industry, and markets on cross-border acquisitions in a specific year when the aggregate M&A activities take place. As countries' culture matters in cross-border M&As (Ahern et al. 2015), we introduce the acquirer–target pair fixed effects (μ_{ij}) to capture any bilateral country pair factors that do not change over time (e.g., geographical distance, cultural ties, and so on).

The key variable is the interaction term of $\text{Year}_t \times \text{China}_i$, which captures the difference in M&A activities in Europe between China and the other six major acquiring countries in each year of 2012–18. It is noteworthy that only the interaction term of $\text{Year}_t \times \text{China}_i$ is presented in the regression specification because the effects of the separate terms of Year_t and China_i are absorbed by the year fixed effects and country pair fixed effects, respectively. All the standard errors are double clustered at both the acquirer and the target country level to account for time series correlation in both dimensions. As we treat the year 2010 as our baseline, the coefficients of interest,β_j, capture the dynamics of Chinese ODI in each year relative to the base year throughout the sample period.

5 An Overview of China's M&A ODI in Europe

Figure 1 provides a scatterplot of the number of China's M&A deal initiations in the EU countries and non-EU European countries in the period 2011–18. The number of deal initiations was always larger in the non-EU European countries than in the EU. Both areas exhibited a sharp increase in deal initiations in 2014–16. Non-EU European countries displayed a slight drop in 2017–18, while the EU countries witnessed a precipitous decline in deal initiations in 2017 and 2018.

Figure 2 plots the aggregate value of deals initiated by Chinese investors in the EU countries and the non-EU European countries. The deal value of EU targets increased sharply in 2014, but declined slightly in 2015, then rose again in 2016 and 2017, and finally declined slightly in 2018. The aggregate value of deals in the non-EU countries skyrocketed in 2015 and 2016, but then dropped in 2017 and 2018.

Figure 3 illustrates the number of Chinese M&A deals initiated in BRI-participating EU countries and non-BRI-participating EU countries. China's merger deal initiations in the BRI-member EU countries rose sharply in 2014–2016, but declined in 2017 and 2018. China's number of deal initiations in non-BRI EU countries dropped slightly from 2013 to 2014, but rose considerably in 2015 and 2016.

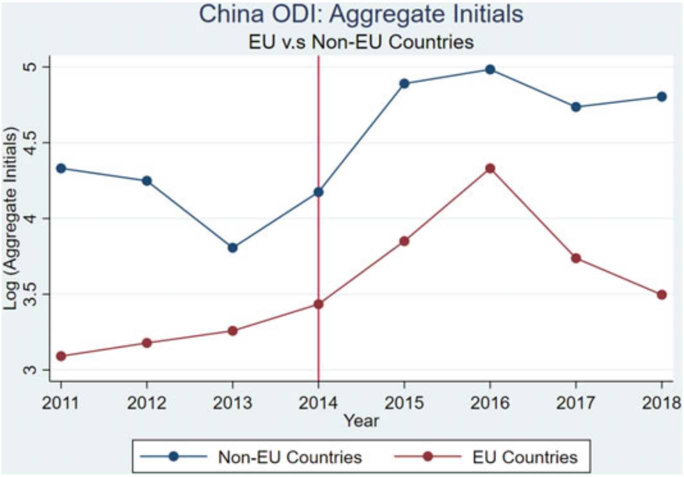

Fig. 1 China's M&A deal initiations in the EU and non-EU European countries

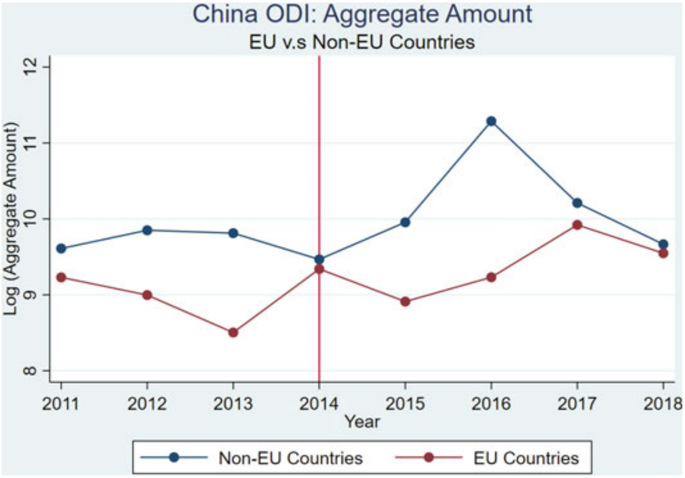

Fig. 2 China's M&A deal values in the EU and non-EU European countries

Then it dropped in 2017 and 2018. Throughout 2011–18, China's M&A deal initiations in BRI-member EU countries remained above those in the non-BRI-member EU countries.

Figure 4 shows the aggregate value of China's M&A deals in the BRI-participating EU countries and non-BRI EU countries. The two groups of countries were very close in M&A deal values from 2011 to 2016. In 2017, China's merger deal value in the BRI-member EU countries dropped, while that in the non-BRI EU countries increased. In 2018, China's merger value declined precipitously in the non-BRI EU

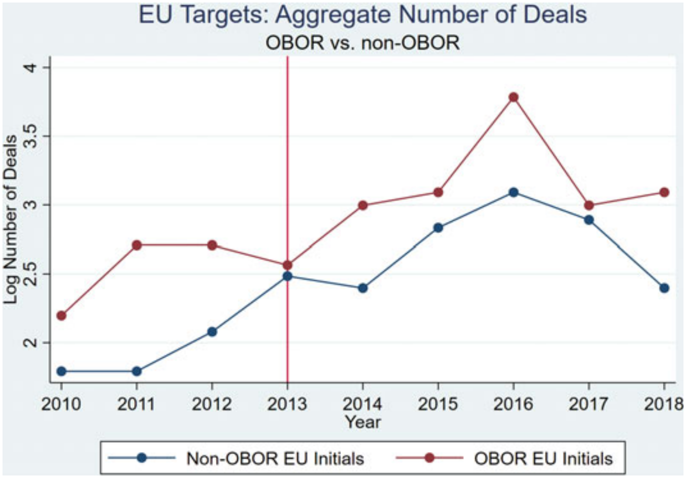

Fig. 3 China's M&A deal initiations in the BRI-participating EU countries and non-BRI-participating EU countries

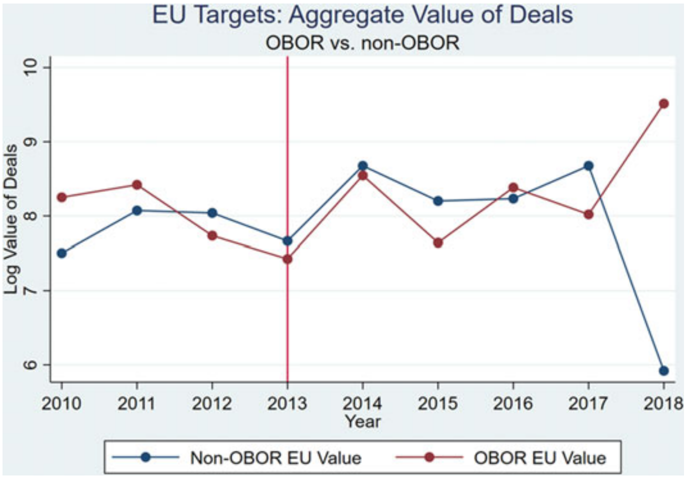

Fig. 4 China's M&A deal values in the BRI-participating EU countries and non-BRI-participating EU countries

countries while it rose sharply in the BRI EU countries, which led to a substantial gap between the two groups.

Next, we choose three representative regions within Europe, namely Western Europe, Eastern Europe, and Russia, to examine the evolutionary pattern of China's ODI. Figure 5 plots the number of China's M&A deal initiations in these three regions in years 2011–18. In Western Europe and Eastern Europe, China's ODI initiations rose from 2014 to 2016, but dropped in 2017. ODI initiations rebounded in Western

Fig. 5 China's M&A deal initiations in the three European regions: Western Europe, Eastern Europe, and Russia

Europe in 2018, but it continued to drop sharply in Eastern Europe. China's ODI initiations in Russia fluctuated a lot in the period 2014–2018, and they dropped sharply in 2016 and 2018.

Figure 6 shows the aggregate value of merger deals in the three European regions. The aggregate deal value remained largely stable in Western Europe. It rose sharply in Eastern Europe from 2013 to 2016 but decreased substantially in 2017 and 2018.

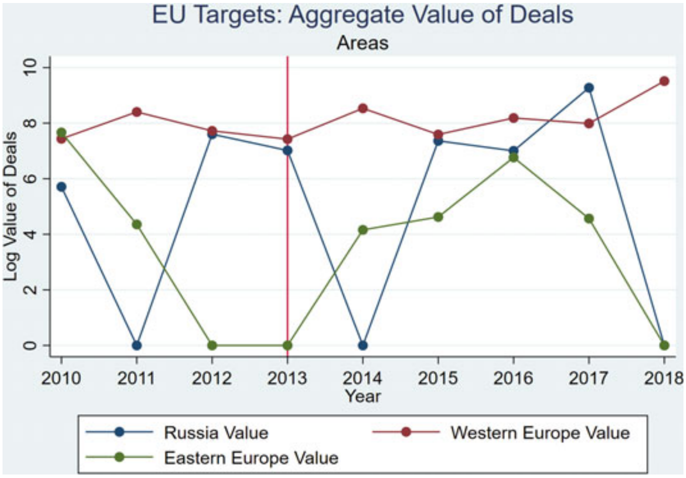

Fig. 6 China's M&A deal values in the three European regions: Western Europe, Eastern Europe, and Russia

Russia witnessed an upward trend in China's ODI value from 2014 to 2017, but the value declined considerably in 2018.

These figures convey a few messages. First, China's merger deals in Europe increased rapidly from 2014 to 2016, but often declined in various parts of Europe in the subsequent years. Second, EU countries exhibited a stronger reversal of the pattern of (i.e., a decline in) receiving China's cross-border merger deals after 2016, especially in terms of deal initiations. Third, China's ODI merger deals in BRI-participating EU countries displayed a stronger resilience than in non-BRI EU countries. Fourth, Eastern Europe and Russia also presented a sharp reversal of China's merger deals after 2016. Thus, the suspicions of and resistance toward Chinese investment permeated in various mega regions in Europe. It is not the EU and those several major European powers that demonstrated a particularly strong reversal of attitude toward BRI. It is also likely that the relatively weak economic and legal institutions in Eastern Europe and Russia deterred the further expansion of Chinese capital thereafter the initial years of a surge in investments.

6 Empirical Analysis of China's M&A Activities in Europe

6.1 Overview of China's ODI in Europe

In Table 2, Columns (1) and (2), we present the dynamic DD regression results for China's aggregate size of ODI in EU and non-EU European countries compared with the six leading acquirer countries, respectively. Figures 7 and 8 illustrate the evolution of the key estimated coefficients in the sample period. China's ODI in both the EU and non-EU Europe rose in the post-BRI period relative to the base year 2010 in the pre-BRI period. The increment was most striking in 2015 and 2016. Then, the degree of increment declined in 2017 for both regions. The momentum totally disappeared in EU in 2018, while it continued weakly in the non-EU Europe.

Table 2, Columns (3) and (4), looks at China's ODI in the BRI-participating EU countries and the non-BRI-participating EU countries, respectively. Figures 9 and 10 give a visual presentation of the changes in the estimated coefficients of the key variable over sample years. Compared with the leading acquirer countries, China's ODI in non-BRI EU countries rose significantly in 2015–17 relative to the pre-BRI period, and the trend reversed in 2018. The Chinese ODI in BRI EU countries rose strikingly compared with the pre-BRI period in BRI-participating EU countries in year 2016 only.

Table 2, Columns (5)–(8), presents the regression results for the aggregate value of Chinese M&A deals. The findings are qualitatively equivalent to those for the number of ODI initiations in Columns (1)–(4).

Table 2 Dynamic DD results for the aggregate size and value of China's M&A deals

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Non-EU	EU	EU & Non-BRI	EU & BRI	Non-EU	EU	EU & Non-BRI	EU & BRI
Year 2014 × China Acquirers	0.045	0.007	0.005	0.009	0.144	0.096	0.081	0.107
	(0.033)	(0.045)	(0.046)	(0.050)	(0.133)	(0.203)	(0.360)	(0.095)
Year 2015 × China Acquirers	0.336***	0.113*	0.146*	0.087	0.991***	0.438***	0.518*	0.377*
	(0.023)	(0.047)	(0.069)	(0.049)	(0.063)	(0.100)	(0.204)	(0.168)
Year 2016 × China Acquirers	0.351***	0.413***	0.330***	0.477***	1.188***	1.122***	0.923**	1.275***
	(0.030)	(0.020)	(0.046)	(0.030)	(0.077)	(0.118)	(0.240)	(0.156)
Year 2017 × China Acquirers	0.262***	0.097*	0.119*	0.080	0.683***	0.438*	0.766**	0.186
	(0.024)	(0.046)	(0.050)	(0.054)	(0.112)	(0.190)	(0.290)	(0.151)
Year 2018 × China Acquirers	0.259***	−0.030	−0.079**	0.008	0.822***	−0.282	−0.886***	0.183
	(0.021)	(0.045)	(0.028)	(0.073)	(0.136)	(0.150)	(0.124)	(0.261)
Observations	2916	1242	540	702	2916	1242	540	702
Adjusted R-squared	0.810	0.792	0.819	0.750	0.645	0.648	0.630	0.651

Notes This table presents the dynamic DD results for the aggregate size and value of China's M&A deals in European continent. Standard errors, clustered at the industry level, are shown in brackets. *, **, and *** denote significance at the 10%, 5%, and 1% level, respectively

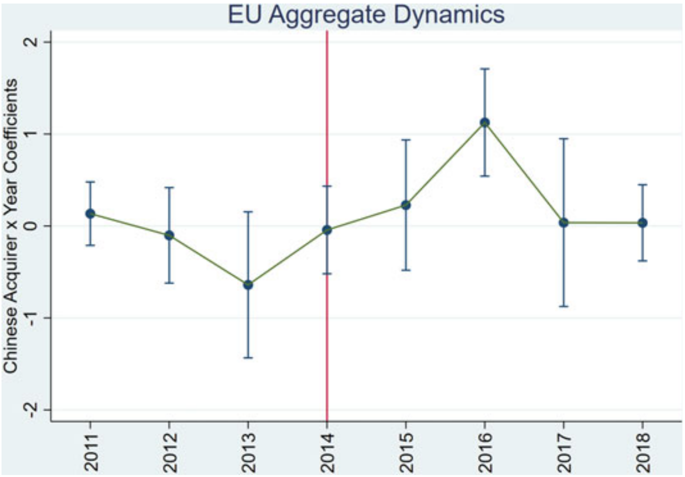

Fig. 7 China's M&A deal value in the EU countries: dynamic DD estimates

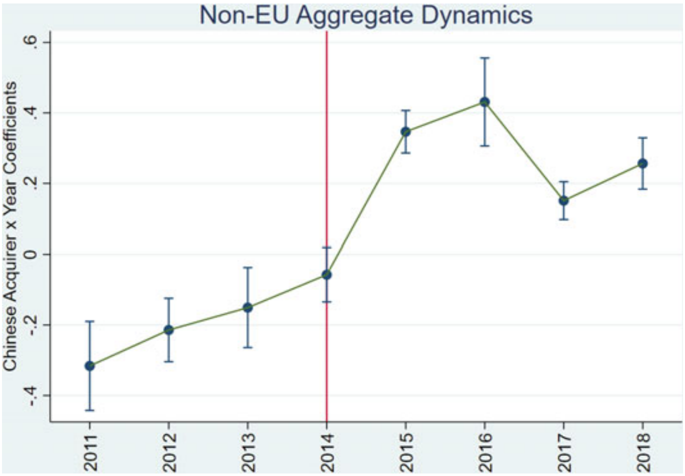

Fig. 8 China's M&A deal value in the non-EU European countries: dynamic DD estimates

6.2 Completed and Incomplete Merger Deals

We examine the evolution of the impact of BRI policy on the number of deals completed or remaining incomplete. In Table 3, we look at completed deals. In Columns (1) and (2), we find that the number of China's completed cross-border merger deals in the EU started a significant rise in 2014, while the increase in the non-EU Europe began in 2015. The increase in both groups reached the peak in 2016. Subsequently, relative to the pre-BRI policy period, the increment in completed deals

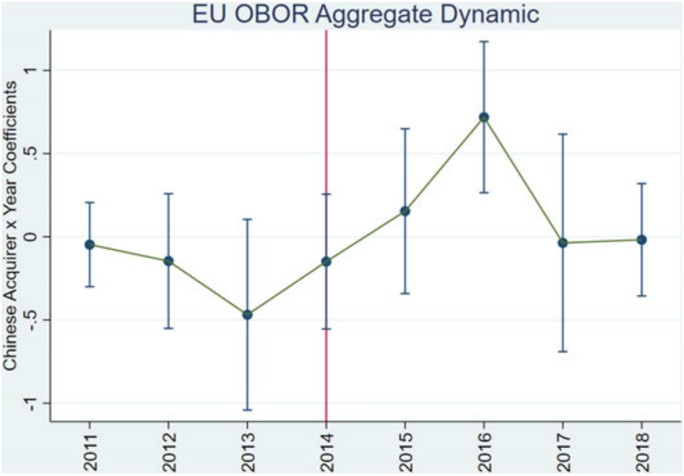

Fig. 9 China's M&A deal value in the BRI-participating EU countries: dynamic DD estimates

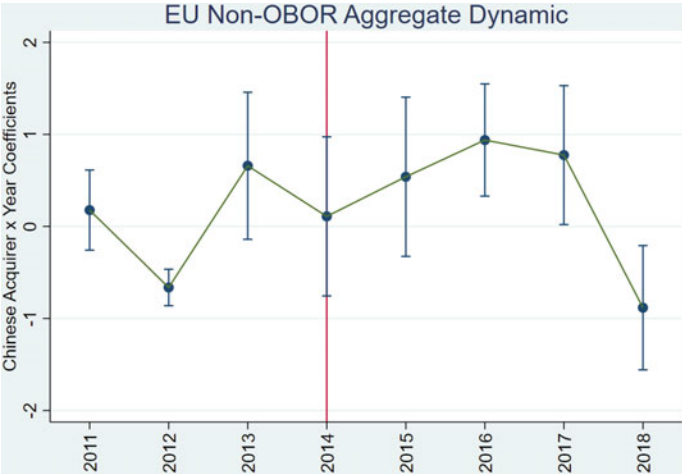

Fig. 10 China's M&A deal value in the non-BRI-participating EU countries: dynamic DD estimates

in EU dropped and lost steam in 2018, whereas that in non-EU Europe remained significant, although the size of the increment dropped.

In Columns (3) and (4), we look at non-BRI EU countries and BRI EU countries, respectively. Both groups exhibited a significant increment in the inflow of Chinese ODI relative to the pre-BRI period from 2014 to 2016, and then the increment dropped in the following years. The non-BRI EU group even displayed a significant drop in 2018 in the level of China's completed deals, relative to the six leading acquiring countries, and the pre-BRI period.

Table 3 Dynamic DD results for the aggregate size and value of completed M&A deals

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Non-EU	EU	EU & Non-BRI	EU & BRI	Non-EU	EU	EU & Non-BRI	EU & BRI
Year 2014 × China Acquirers	−0.002	0.092**	0.104*	0.083**	−0.110	0.507**	0.601*	0.435**
	(0.023)	(0.032)	(0.042)	(0.029)	(0.128)	(0.160)	(0.250)	(0.110)
Year 2015 × China Acquirers	0.252***	0.106**	0.202**	0.032	0.548***	0.560***	0.910***	0.291
	(0.015)	(0.038)	(0.052)	(0.044)	(0.067)	(0.056)	(0.185)	(0.145)
Year 2016 × China Acquirers	0.282***	0.303***	0.280***	0.320***	0.817***	0.844***	0.679**	0.970***
	(0.017)	(0.024)	(0.046)	(0.022)	(0.075)	(0.110)	(0.208)	(0.115)
Year 2017 × China Acquirers	0.238***	0.161***	0.153**	0.167**	0.666***	0.700**	1.028**	0.447**
	(0.013)	(0.039)	(0.044)	(0.043)	(0.118)	(0.209)	(0.352)	(0.146)
Year 2018 × China Acquirers	0.167***	−0.035	−0.092**	0.008	0.622***	−0.368**	−0.561**	−0.219
	(0.021)	(0.022)	(0.029)	(0.030)	(0.138)	(0.126)	(0.141)	(0.269)
Observations	2808	1242	540	702	2808	1242	540	702
Adjusted R-squared	0.809	0.786	0.812	0.746	0.636	0.624	0.609	0.621

Notes This table presents the dynamic DD results for the aggregate size and value of Chinese M&A's completed deals in European continent. Standard errors, clustered at the industry level, are shown in brackets. *, **, and *** denote significance at the 10%, 5%, and 1% level, respectively

Columns (5) and (6) examine the value of completed deals in the non-BRI EU countries and the BRI-participating EU countries. The pattern is largely similar to that of number of completed deals in Columns (1) and (2), except that the increment in China's completed deal value in the EU countries significantly declined in 2018 relative to the six big acquiring countries and the pre-BRI period. Columns (7) and (8) look at the value of completed deals in non-BRI EU countries and the BRI EU countries. The pattern of results is equivalent to that of completed deal numbers in Columns (3) and (4).

Table 4 looks at the number of incomplete merger deals. Columns (1) and (2) compare non-EU European countries and EU. The number of China's incomplete merger deals in the EU displayed a pattern of fluctuation in the post-BRI period, while that in the non-EU Europe presented a consistently significant increment in the post-BRI years. In Columns (3) and (4), we examine BRI-participating EU countries and non-BRI-participating EU countries. The former group displayed more ups and downs in the increment relative to the pre-BRI period.

Next, we examine the value of incomplete deals. Columns (5)–(6) show that the pattern of incomplete deal value dynamics in the post-BRI period is largely similar to that of incomplete deal numbers in Columns (1) and (2), i.e., the EU countries showed more frequently significant declines while the non-EU Europe had a consistent increment in China's incomplete deal value relative to the six leading acquiring countries and the pre-BRI period. Columns (7)–(8) indicate that both groups of countries displayed some significant drop in the deal value of China's incomplete merger deals in the post-BRI period.

6.3 Friendly Versus Hostile Merger Deals

In Table 5, Columns (1) and (2), we observe that the number of China's friendly merger deals increased significantly in both the EU and the non-EU Europe from 2015 to 2017. The growth in EU lost its momentum in 2018, while the non-EU Europe continued its significant growth in 2018. Relatively speaking, the magnitude of the increment in the non-EU country group is larger. From Columns (3) and (4), we observe that the number of friendly acquisitions made by Chinese investors increased significantly in both the BRI-related EU countries and non-BRI-related EU countries in 2015 and 2016, but the growing trend halted afterward.

In Columns (5)–(8), we examine the value of friendly merger deals, which produces a pattern similar to that of the number of friendly merger deals. Overall, the value of China's friendly acquisitions in the non-EU European countries displayed a more consistently significant increment, while BRI-participating EU countries produced a more consistent increase in China's friendly deal value than the non-BRI-participating EU countries.

Table 6 looks at hostile merger deals. From Columns (1) and (2), we observe that the number of China's hostile merger deals rose significantly in the non-EU Europe in the post-BRI period. In contrast, it decreased significantly in the EU countries

Table 4 Dynamic DD results for the aggregate size and value of incomplete M&A deals

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Non-EU	EU	EU & Non-BRI	EU & BRI	Non-EU	EU	EU & Non-BRI	EU & BRI
Year 2014 × China Acquirers	0.058*	−0.146**	−0.154**	−0.139**	0.266***	−1.084**	−1.270**	−0.915***
	(0.027)	(0.040)	(0.040)	(0.050)	(0.058)	(0.331)	(0.491)	(0.216)
Year 2015 × China Acquirers	0.184***	0.005	−0.141	0.138***	0.761***	−0.483	−1.065*	0.047
	(0.023)	(0.047)	(0.075)	(0.032)	(0.108)	(0.301)	(0.433)	(0.196)
Year 2016 × China Acquirers	0.195***	0.265***	0.090**	0.424***	0.860***	0.665***	0.512**	0.804**
	(0.035)	(0.025)	(0.030)	(0.035)	(0.122)	(0.146)	(0.136)	(0.248)
Year 2017 × China Acquirers	0.117***	−0.078	0.038	−0.185**	0.255**	−0.475*	−0.042	−0.868**
	(0.029)	(0.050)	(0.077)	(0.054)	(0.098)	(0.204)	(0.287)	(0.324)
Year 2018 × China Acquirers	0.133***	0.012	0.008	0.016	0.466***	−0.388	−0.810*	−0.004
	(0.020)	(0.070)	(0.030)	(0.108)	(0.094)	(0.425)	(0.384)	(0.493)
Observations	2754	1134	540	594	2754	1134	540	594
Adjusted *R*-squared	0.644	0.490	0.570	0.372	0.503	0.434	0.502	0.339

Notes This table presents the dynamic DD results for the aggregate size and value of Chinese M&A's incomplete deals in European continent. Standard errors, clustered at the industry level, are shown in brackets. *, **, and *** denote significance at the 10%, 5%, and 1% level, respectively

Table 5 Dynamic DD results for the aggregate size and value of friendly M&A deals

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Non-EU	EU	EU & Non-BRI	EU & BRI	Non-EU	EU	EU & Non-BRI	EU & BRI
Year 2014 × China Acquirers	0.029	0.033	0.042	0.026	0.104	0.236	0.309	0.180
	(0.034)	(0.044)	(0.045)	(0.050)	(0.138)	(0.166)	(0.269)	(0.096)
Year 2015 × China Acquirers	0.350***	0.125**	0.170*	0.091*	1.103***	0.523***	0.633**	0.439**
	(0.024)	(0.041)	(0.068)	(0.045)	(0.043)	(0.077)	(0.189)	(0.165)
Year 2016 × China Acquirers	0.306***	0.410***	0.314***	0.485***	0.907***	1.185***	0.997***	1.330***
	(0.029)	(0.026)	(0.047)	(0.032)	(0.064)	(0.112)	(0.196)	(0.152)
Year 2017 × China Acquirers	0.262***	0.095*	0.103	0.089	0.739***	0.279	0.268	0.287
	(0.025)	(0.045)	(0.054)	(0.053)	(0.088)	(0.174)	(0.286)	(0.147)
Year 2018 × China Acquirers	0.258***	−0.026	−0.049	−0.009	0.880***	−0.400*	−0.802***	−0.092
	(0.022)	(0.046)	(0.033)	(0.080)	(0.122)	(0.157)	(0.149)	(0.311)
Observations	2916	1242	540	702	2916	1242	540	702
Adjusted R-squared	0.802	0.791	0.819	0.748	0.641	0.645	0.636	0.639

Notes This table presents the dynamic DD results for the aggregate size and value of Chinese M&A's friendly deals in European continent. Standard errors, clustered at the industry level, are shown in brackets. *, **, and *** denote significance at the 10%, 5%, and 1% level, respectively

Table 6 Dynamic DD results for the aggregate size and value of unfriendly M&A deals

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Non-EU	EU	EU & Non-BRI	EU & BRI	Non-EU	EU	EU & Non-BRI	EU & BRI
Year 2014 × China Acquirers	0.034*	−0.095**	−0.108*	−0.081**	0.272***	−0.745**	−0.869*	−0.621***
	(0.017)	(0.029)	(0.044)	(0.023)	(0.047)	(0.200)	(0.409)	(0.147)
Year 2015 × China Acquirers	0.018	−0.055	−0.126*	0.016	−0.019	−0.546*	−0.981*	−0.111
	(0.020)	(0.039)	(0.061)	(0.020)	(0.096)	(0.260)	(0.467)	(0.180)
Year 2016 × China Acquirers	0.218***	−0.032	−0.025	−0.039	1.451***	−0.495*	−0.495	−0.496
	(0.022)	(0.037)	(0.039)	(0.062)	(0.151)	(0.233)	(0.299)	(0.420)
Year 2017 × China Acquirers	0.013	−0.022	0.010	−0.054*	0.096	−0.207	0.348	−0.762
	(0.009)	(0.019)	(0.052)	(0.024)	(0.058)	(0.200)	(0.204)	(0.378)
Year 2018 × China Acquirers	0.053*	0.029	−0.094*	0.153***	0.268**	0.409**	−0.515**	1.333***
	(0.022)	(0.021)	(0.037)	(0.033)	(0.092)	(0.136)	(0.193)	(0.261)
Observations	1728	864	432	432	1728	864	432	432
Adjusted R-squared	0.429	0.233	0.308	0.0889	0.330	0.227	0.322	0.0810

Notes This table presents the dynamic DD results for the aggregate size and value of Chinese M&A's unfriendly deals in European continent. Standard errors, clustered at the industry level, are shown in brackets. *, **, and *** denote significance at the 10%, 5%, and 1% level, respectively in 2014 and did not show significant changes afterward. This suggests that the EU countries embraced Chinese acquisition deals more warmly than did the non-EU countries in the post-BRI period.

From Columns (3) and (4), the number of China's hostile takeover deals dropped in non-BRI EU countries in the post-BRI years, whereas it dropped in the BRI-participating EU countries in the period 2014–17, but significantly rebounded in 2018. This suggests a potential shift in the attitude of EU countries and companies toward China and BRI.

In Columns (5) and (6), we observe a fairly consistent significant increment in the value of China's hostile merger deals in the non-EU European countries in the years after BRI's inception, while it significantly dropped in the EU countries in the years 2014–16 and slightly rebounded in 2018. In Columns (7) and (8), we find that the unfriendly merger deal value declined in the non-BRI EU countries in 2014–18, whereas the BRI-participating countries exhibited a decrease initially but the declining trend was reversed in 2018. This again suggests that the BRI EU countries probably acquired vigilance toward BRI in most recent years.

6.4 Full-, Majority-, and Minority-Ownership Acquisitions

We investigate the overseas acquisitions along the line of ownership shares acquired by Chinese companies. We first examine China's overseas full-ownership acquisitions. In Table 7, Columns (1) and (2), we find that China's initiation of full-ownership acquisitions in the non-EU Europe in the years after BRI's inception fairly consistently significantly increased relative to the six leading acquiring countries and the pre-BRI period, whereas the significant increment only occurred in 2016 but lost steam afterward in the EU countries.

In Columns (3) and (4), the significant increment in full-ownership acquisition initiations only occurred in year 2016 in both BRI-participating EU countries and non-BRI-participating EU countries.

Similar to Columns (1) and (2), Columns (5) and (6) show that the non-EU European countries displayed a fairly consistent significant increase in the value of China's full-ownership acquisitions in the post-BRI years, whereas the EU countries displayed a significant increment in receiving Chinese full-ownership acquisitions in 2015 and 2016 but the growth stopped afterward.

From Columns (7) and (8), we find that the value of China's full-ownership acquisitions increased significantly in the BRI-participating EU countries in 2015–17 and in the non-BRI EU countries in 2015–16.

Table 8 examines the situation of Chinese investors' majority-ownership acquisitions. From Columns (1) and (2), we observe that the number of China's majority-ownership acquisition deals increased consistently and significantly in the EU countries in each year after the outset of BRI. It also produced a significant increase in

Table 7 Dynamic DD results for the aggregate size and value of full-ownership M&A deals

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Non-EU	EU	EU & Non-BRI	EU & BRI	Non-EU	EU	EU & Non-BRI	EU & BRI
Year 2014 × China Acquirers	0.019	−0.038	−0.046	−0.034	−0.020	−0.070	−0.442	0.149
	(0.020)	(0.044)	(0.051)	(0.045)	(0.060)	(0.224)	(0.356)	(0.170)
Year 2015 × China Acquirers	0.094***	0.027	0.098	−0.015	0.350***	0.395***	0.835***	0.136*
	(0.020)	(0.036)	(0.052)	(0.031)	(0.045)	(0.067)	(0.188)	(0.060)
Year 2016 × China Acquirers	0.098**	0.211***	0.258***	0.184***	0.340***	0.915***	1.117***	0.797***
	(0.024)	(0.009)	(0.043)	(0.021)	(0.076)	(0.057)	(0.222)	(0.095)
Year 2017 × China Acquirers	0.034	0.002	−0.022	0.016	0.099	0.095	−0.213	0.275*
	(0.017)	(0.041)	(0.050)	(0.039)	(0.052)	(0.126)	(0.171)	(0.118)
Year 2018 × China Acquirers	0.051**	−0.021	−0.064	0.004	0.205**	−0.084	−0.332*	0.063
	(0.013)	(0.049)	(0.043)	(0.067)	(0.071)	(0.140)	(0.142)	(0.194)
Observations	5238	1458	540	918	5238	1458	540	918
Adjusted R-squared	0.764	0.793	0.833	0.730	0.614	0.670	0.681	0.640

Notes This table presents the dynamic DD results for the aggregate size and value of Chinese M&A's full-ownership deals in European continent. Standard errors, clustered at the industry level, are shown in brackets. *, **, and *** denote significance at the 10%, 5%, and 1% level, respectively

Table 8 Dynamic DD results for the aggregate size and value of majority-ownership M&A deals

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Non-EU	EU	EU & Non-BRI	EU & BRI	Non-EU	EU	EU & Non-BRI	EU & BRI
Year 2014 × China Acquirers	0.012	0.213***	0.348***	0.120***	0.039	1.447***	2.337***	0.830***
	(0.015)	(0.019)	(0.043)	(0.011)	(0.044)	(0.143)	(0.279)	(0.072)
Year 2015 × China Acquirers	0.142***	0.132***	0.112*	0.146***	0.690***	0.298**	0.345	0.266
	(0.015)	(0.017)	(0.046)	(0.033)	(0.073)	(0.078)	(0.172)	(0.161)
Year 2016 × China Acquirers	0.159***	0.205***	0.362***	0.096**	0.768***	0.634***	1.534***	0.011
	(0.016)	(0.013)	(0.039)	(0.027)	(0.066)	(0.110)	(0.218)	(0.153)
Year 2017 × China Acquirers	0.094***	0.188***	0.295***	0.114**	0.342***	1.116***	1.640***	0.753**
	(0.019)	(0.011)	(0.040)	(0.033)	(0.061)	(0.087)	(0.150)	(0.223)
Year 2018 × China Acquirers	0.023	0.120***	0.028	0.183***	0.012	0.334**	−0.149	0.669***
	(0.016)	(0.020)	(0.030)	(0.019)	(0.056)	(0.113)	(0.146)	(0.158)
Observations	4212	1188	486	702	4212	1188	486	702
Adjusted R-squared	0.514	0.401	0.432	0.351	0.418	0.347	0.398	0.286

Notes This table presents the dynamic DD results for the aggregate size and value of Chinese M&A's majority-ownership deals in European continent. Standard errors, clustered at the industry level, are shown in brackets. *, **, and *** denote significance at the 10%, 5%, and 1% level, respectively the non-EU countries in years 2015–17. Columns (3) and (4) show that the initiations of China's majority-ownership acquisitions increased consistently and significantly in the BRI-participating EU countries in each post-BRI year and consistently significantly in the non-BRI EU countries in 2014–17.

Columns (5)–(8) look at the value of China's majority-ownership merger deals. The results are qualitatively equivalent to their number of initiation counterparts in Columns (1)–(4).

Both full-ownership and majority-ownership acquisitions demonstrate a strong presence of Chinese capital in Europe and the strong commitment made by Chinese investors to Europe. Comparatively speaking, the full-ownership acquisitions are more politically and economically sensitive to the target countries. We observe that Chinese full-ownership acquisition deals no longer grew strikingly after 2016, while its majority-ownership acquisition deals maintained a significant increment in the EU and BRI-participating EU countries in the post-BRI period. This may suggest that there might emerge some resistance from the public and the recipient country government to a widespread entry of Chinese investment.

Table 9 examines China's minority-ownership acquisition deals in Europe. Columns (1)–(4) look at the number of initiations. It increased consistently significantly in the non-EU European countries from 2015 to 2018, whereas it decreased in the EU countries in 2014 but increased in 2015–16. Columns (3)–(4) show that the minority-ownership acquisition initiations increased significantly in the BRI-participating EU countries from 2014 to 2016, while they fluctuated a lot in the non-BRI EU countries.

Columns (5)–(6) analyze the value of China's minority-ownership acquisitions. In Columns (5)–(6), minority-stake acquisition values increased significantly in the non-EU Europe from 2015 to 2018, while they dropped in EU in 2014 and remained stagnant afterward. From Columns (7) and (8), we observe that the minority-ownership acquisition value largely decreased in non-BRI EU countries in the post-BRI period, whereas it increased significantly in BRI-participating EU countries in 2015–16, but dropped significantly in 2017.

We therefore observe a pattern of slowdown in China's minority-stake merger deals in the EU and BRI-participating EU countries after 2016, which is similar to the pattern for China's full-stake or majority-stake acquisition deals. This indicates the emerging resistance of the public and the recipient government to Chinese direct investment applied to even minority-stake acquisitions where the threat of Chinese investment might be minor.

6.5 New Versus Incremental Acquisitions

In Tables 10 and 11, we examine the dynamic effects of BRI on new and incremental acquisitions. Table 10 examines new acquisitions made by Chinese investors where acquirers have no prior foothold in the target companies. From Columns (1)–(2), after the launch of BRI, we observe that China's new acquisition deal initiations in

Table 9 Dynamic DD results for the aggregate size and value of minority-ownership M&A deals

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Non-EU	EU	EU & Non-BRI	EU & BRI	Non-EU	EU	EU & Non-BRI	EU & BRI
Year 2014 × China Acquirers	0.006	−0.066***	−0.265***	0.058***	0.122	−0.612***	−1.617***	0.015
	(0.017)	(0.013)	(0.037)	(0.009)	(0.099)	(0.075)	(0.175)	(0.099)
Year 2015 × China Acquirers	0.088***	0.101***	0.081**	0.113***	0.178*	0.126	−0.083	0.257*
	(0.011)	(0.025)	(0.030)	(0.025)	(0.080)	(0.104)	(0.126)	(0.106)
Year 2016 × China Acquirers	0.108***	0.162***	−0.130*	0.345***	0.328*	0.129	−1.146**	0.925***
	(0.021)	(0.024)	(0.052)	(0.013)	(0.129)	(0.160)	(0.355)	(0.090)
Year 2017 × China Acquirers	0.126***	0.006	0.003	0.008	0.315***	0.002	0.221*	−0.135**
	(0.008)	(0.013)	(0.024)	(0.007)	(0.044)	(0.039)	(0.097)	(0.046)
Year 2018 × China Acquirers	0.114**	0.018	0.047*	−0.001	0.462**	−0.117	−0.445***	0.089
	(0.034)	(0.023)	(0.020)	(0.034)	(0.152)	(0.162)	(0.101)	(0.243)
Observations	3942	1404	540	864	3942	1404	540	864
Adjusted R-squared	0.679	0.446	0.497	0.403	0.500	0.367	0.342	0.390

Notes This table presents the dynamic DD results for the aggregate size and value of Chinese M&A's minority-ownership deals in European continent. Standard errors, clustered at the industry level, are shown in brackets. *, **, and *** denote significance at the 10%, 5%, and 1% level, respectively

Table 10 Dynamic DD results for the aggregate size and value of new M&A deals

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Non-EU	EU	EU & Non-BRI	EU & BRI	Non-EU	EU	EU & Non-BRI	EU & BRI
Year 2014 × China Acquirers	0.021	−0.018	−0.051	0.001	0.073	−0.167	−0.422	−0.025
	(0.018)	(0.037)	(0.041)	(0.039)	(0.065)	(0.176)	(0.280)	(0.124)
Year 2015 × China Acquirers	0.171***	0.101**	0.159*	0.069*	0.456***	0.376***	0.530**	0.291
	(0.014)	(0.031)	(0.063)	(0.032)	(0.012)	(0.077)	(0.195)	(0.147)
Year 2016 × China Acquirers	0.176***	0.286***	0.266***	0.297***	0.534***	0.897***	0.973***	0.854***
	(0.023)	(0.014)	(0.044)	(0.022)	(0.064)	(0.114)	(0.238)	(0.103)
Year 2017 × China Acquirers	0.133***	0.078*	0.130**	0.048	0.350***	0.378**	0.798**	0.145
	(0.014)	(0.031)	(0.044)	(0.032)	(0.047)	(0.114)	(0.286)	(0.083)
Year 2018 × China Acquirers	0.124***	−0.045	−0.079**	−0.027	0.408***	−0.213	−0.900***	0.169
	(0.012)	(0.044)	(0.022)	(0.062)	(0.063)	(0.149)	(0.130)	(0.228)
Observations	6210	1512	540	972	6210	1512	540	972
Adjusted R-squared	0.799	0.802	0.826	0.758	0.648	0.665	0.627	0.670

Notes This table presents the dynamic DD results for the aggregate size and value of Chinese M&A's new deals in European continent. Standard errors, clustered at the industry level, are shown in brackets. *, **, and *** denote significance at the 10%, 5%, and 1% level, respectively

Table 11 Dynamic DD results for the aggregate size and value of incremental M&A deals

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Non-EU	EU	EU & Non-BRI	EU & BRI	Non-EU	EU	EU & Non-BRI	EU & BRI
Year 2014 × China Acquirers	0.036	0.027*	0.057**	−0.003	0.153	0.242***	0.491***	−0.008
	(0.019)	(0.012)	(0.021)	(0.015)	(0.097)	(0.055)	(0.092)	(0.096)
Year 2015 × China Acquirers	0.055***	−0.004	−0.018	0.011	0.297***	0.022	−0.008	0.052
	(0.009)	(0.023)	(0.041)	(0.032)	(0.030)	(0.096)	(0.202)	(0.147)
Year 2016 × China Acquirers	0.037**	0.168***	0.112**	0.224***	0.356***	0.361	0.011	0.711**
	(0.012)	(0.027)	(0.031)	(0.032)	(0.060)	(0.210)	(0.265)	(0.186)
Year 2017 × China Acquirers	0.035*	−0.016	−0.040*	0.009	0.157**	−0.019	−0.168	0.130
	(0.015)	(0.019)	(0.017)	(0.028)	(0.058)	(0.108)	(0.147)	(0.188)
Year 2018 × China Acquirers	0.042**	0.066**	−0.018	0.150***	0.222***	0.228*	−0.077	0.533***
	(0.016)	(0.019)	(0.035)	(0.009)	(0.052)	(0.094)	(0.127)	(0.108)
Observations	2970	1080	540	540	2970	1080	540	540
Adjusted R-squared	0.478	0.214	0.261	0.163	0.396	0.243	0.351	0.138

Notes This table presents the dynamic DD results for the aggregate size and value of Chinese M&A's incremental deals in European continent. Standard errors, clustered at the industry level, are shown in brackets. *, **, and *** denote significance at the 10%, 5%, and 1% level, respectively both EU and non-EU Europe remained fairly consistently and significantly higher than those in the pre-BRI period. In Column (3), new acquisition deal initiations from Chinese investors increased significantly in 2015–17 in non-BRI EU countries, but dropped in 2018. Column (4) shows that China's new acquisition deal initiations rose significantly in the BRI-participating EU countries in 2015–16 but lost momentum afterward.

Columns (5)–(8) present the analysis of the value of new acquisition deals initiated, and the results are qualitatively equivalent to those in Columns (1)–(4).

Table 11 presents the regression results for incremental acquisitions by Chinese investors where they had already a foothold in the target companies and are increasing their stakes there. Columns (1)–(2) show that the number of Chinese incremental acquisition deal initiations increased significantly in both EU and non-EU Europe in the post-BRI period compared with the deals initiated by the six leading acquirer countries. In Columns (3)–(4), we find that the increase in China's incremental acquisitions in the BRI-participating EU countries was relatively more consistent in the post-BRI period than in the non-BRI EU countries.

Columns (5)–(8) list the results for the value of incremental acquisition deals initiated. The findings are qualitatively equivalent to those of number of initiations in Columns (1)–(4).

The relatively more persistent significant increases in China's incremental merger deals than its new acquisition deals in Europe in the post-BRI period, especially in the EU and the BRI-participating EU countries, suggest that there might truly appear some resistance from the corporate sector, the public and the recipient governments to Chinese direct investment, especially new acquisition deals, whereas the incremental acquisition deals were less eye-catching so that they were negatively affected to a lesser degree.

6.6 M&A Activities of SOEs and Non-SOEs

How the Chinese SOE acquirers and non-SOE acquirers conducted ODI can help us further understand the responses to the implementation of BRI in Europe.

Table 12 examines Chinese SOEs' merger deals in Europe. From Columns (1)–(2), we find that Chinese SOEs' acquisition deal initiations in both the EU countries and non-EU European countries declined in the post-BRI years. Columns (3)–(4) show that acquisition initiations in non-BRI EU countries declined consistently in the post-BRI years, whereas those in BRI EU countries fluctuated, but generally declined in the post-BRI period.

Columns (5)–(8) show the results for the value of merger deals conducted by China's SOEs in Europe. The results are qualitatively equivalent to those of deal initiations.

Table 13 investigates the merger deals of China's non-SOEs in Europe. In Columns (1)–(2), the number of initiations of merger deals by non-SOEs increased consistently and significantly in the non-EU Europe in every post-BRI year, and the significant

Table 12 Dynamic DD results for the aggregate size and value of SOE buyer M&A deals

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Non-EU	EU	EU & Non-BRI	EU & BRI	Non-EU	EU	EU & Non-BRI	EU & BRI
Year 2014 × China Acquirers	−0.110***	0.019*	−0.082***	0.107***	−0.527***	−0.141	−0.896***	0.519***
	(0.011)	(0.009)	(0.012)	(0.016)	(0.081)	(0.104)	(0.156)	(0.113)
Year 2015 × China Acquirers	−0.058**	−0.093	−0.023	−0.154*	−0.515***	−0.653*	−0.274	−0.984*
	(0.018)	(0.057)	(0.061)	(0.070)	(0.114)	(0.281)	(0.392)	(0.388)
Year 2016 × China Acquirers	−0.002	−0.005	−0.133***	0.107**	−0.195*	−0.400**	−1.375***	0.453*
	(0.008)	(0.015)	(0.031)	(0.028)	(0.091)	(0.155)	(0.228)	(0.200)
Year 2017 × China Acquirers	−0.027*	−0.101***	−0.150***	−0.057	−0.347***	−0.577***	−1.220***	−0.014
	(0.012)	(0.015)	(0.013)	(0.037)	(0.065)	(0.139)	(0.069)	(0.242)
Year 2018 × China Acquirers	−0.044**	−0.204***	−0.213***	−0.196**	−0.280**	−1.373***	−1.242***	−1.488**
	(0.013)	(0.036)	(0.046)	(0.069)	(0.082)	(0.303)	(0.144)	(0.564)
Observations	2430	810	378	432	2430	810	378	432
Adjusted $R-$squared	0.535	0.228	0.326	0.101	0.430	0.190	0.277	0.0908

Notes This table presents the dynamic DD results for the aggregate size and value of Chinese M&A's SOE buyer deals in European continent. Standard errors, clustered at the industry level, are shown in brackets. *, **, and *** denote significance at the 10%, 5%, and 1% level, respectively

Table 13 Dynamic DD results for the aggregate size and value of Non-SOE buyer M&A deals

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Non-EU	EU	EU & Non-BRI	EU & BRI	Non-EU	EU	EU & Non-BRI	EU & BRI
Year 2014 × China Acquirers	0.056*	0.029	0.075	0.004	0.261**	0.285	0.756**	0.024
	(0.022)	(0.041)	(0.038)	(0.046)	(0.067)	(0.188)	(0.274)	(0.145)
Year 2015 × China Acquirers	0.203***	0.135***	0.165**	0.119**	0.742***	0.639***	0.625***	0.647**
	(0.018)	(0.028)	(0.061)	(0.033)	(0.028)	(0.076)	(0.140)	(0.171)
Year 2016 × China Acquirers	0.177***	0.333***	0.342***	0.328***	0.643***	1.135***	1.285***	1.052***
	(0.025)	(0.014)	(0.034)	(0.019)	(0.074)	(0.116)	(0.225)	(0.095)
Year 2017 × China Acquirers	0.136***	0.125**	0.186**	0.091*	0.445***	0.665***	1.178***	0.380**
	(0.018)	(0.038)	(0.047)	(0.039)	(0.059)	(0.137)	(0.257)	(0.097)
Year 2018 × China Acquirers	0.135***	0.042	0.014	0.058	0.462***	0.187	−0.436***	0.533**
	(0.014)	(0.045)	(0.030)	(0.066)	(0.070)	(0.142)	(0.088)	(0.195)
Observations	6210	1512	540	972	6210	1512	540	972
Adjusted *R*-squared	0.801	0.794	0.815	0.753	0.656	0.661	0.627	0.664

Notes This table presents the dynamic DD results for the aggregate size and value of Chinese M&A's non-SOE buyer deals in European continent. Standard errors, clustered at the industry level, are shown in brackets. *, **, and *** denote significance at the 10%, 5%, and 1% level, respectively increase also occurred in the EU in years 2015–17. Columns (3)–(4) show that the significant increase in non-SOE merger deal initiations took place in both BRI-participating EU countries and non-BRI-related EU countries in years 2015–17.

Columns (5)–(8) present the results for the value of merger deals by non-SOEs. The results are largely qualitatively equivalent to those for deal initiations in Columns (1)–(4), except that the deal value reversed the trend in non-BRI Europe in 2018, whereas the trend remained continuous in BRI-participating EU.

These findings point to the decline in China's SOE acquisition deals and the rise of China's non-SOE merger deals. This suggests that there might well be widespread suspicions of Chinese SOE-initiated deals, whereas non-SOE-initiated deals were more acceptable to the European countries.

7 Concluding Remarks

Over the past two decades, interdependence in economic relations between Europe and China has increased fast, and political relations have gained in maturity and depth. High-level exchanges between European countries and China occur more frequently. As a matter of fact, most of the European countries' national strategies toward 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.

In recent years, especially since BRI's inception, the presence of Chinese capital in Europe has grown fast. It is observed that the context of EU-China relations has dramatically changed over the past five years. China's interest in Europe is rapidly expanding into new areas. Geographically, China has been building a closer economic link with Central, Eastern, and Southern Europe as well as Russia. In terms of substance, Chinese investment in Europe has been growing fast, thanks to the BRI program to a large part. Europe finds itself encountering a much more proactive China on the diplomatic front, the contours of the relationship are increasingly designed in Beijing, and European governments find their relative influence over Beijing waning. The situation is exacerbated by the absence of a united EU or European policy toward China, i.e., the lack of communication, cohesion, and, consequently, the inability to formulate common policies among the EU or European countries. Indeed, in dealing with China, Europe has been divided and often competes with itself. This competition or lack of coordination on China policies stems more from deficiencies within Europe than from a deliberate Chinese strategy to divide the continent (Huotari et al. 2015).

The lack of a unified China policy in Europe is manifested in the somewhat differentiated patterns and trends in investment and trade relations with China across Europe. This fundamentally complicates a joint European response vis-à-vis China. Nevertheless, this study shows that the variations in Chinese investment in Europe are not so large to warrant the claim of a divided Europe toward China. Probably because of the European concern over "the Chinese buying up Europe" and growing wariness of China, the momentum of the growth of Chinese ODI in Europe declined significantly after 2016. Overall, the Chinese footprints in Europe are limited. The presence of Chinese companies and Chinese investments in Europe is still fairly minor, especially when compared with that of the USA. The European corporate dependence on China also remains limited as markets in Europe and the USA are more important than the Chinese market for their business.

In times of the changing political and economic landscape of the world, both Europe and China need a clear assessment of their economic exposure to each other, their respective vulnerabilities, and strengths to adequately balance the different spheres of cooperation and competition. In this context, many European states are making hard choices between political ideals, such as the promotion of democracy and human rights in China, and their economic strategy and economic interests. There are signs that European countries are increasingly likely to converge to a united policy framework to stand for political ideals more than in the past. The European attitudes toward China are hardening across the continent.

The containment of the COVID-19 pandemic and the promotion of the post-COVID-19 global economic recovery, however, hinges crucially on the continuation of cooperation among major economic powers. It will be ideal if the EU's China policy can go beyond the constraint of an overblown perception of EU's economic vulnerability and China's political and economic coercion. Preserving a healthy degree of economic linkage and interdependence should be in the best interests of both the EU and China. Meanwhile, it is also clear that much work needs to be done in order to foster greater cooperation between the EU and China. As two of the largest global economic powers, Brussels and Beijing would enhance global economic recovery if they pursue "win–win" solutions that do not leave either party in a disadvantageous state. China must be clear and resolute that its investments and acquisitions are not aimed at "buying up Europe" and gain dominance over Europe. China should elucidate what its intentions are and remain committed to transparency. China should considerably enhance its market opening to the EU and implement a more reciprocal economic exchange program with Europe. On the other hand, the EU should highlight the importance of cooperation in research and development, investment, and trade. BRI should be able to continue to provide a platform for the Sino-EU cooperation in the future.

8 Appendix

See Appendix Tables 1 and 2.

Appendix Table 1 One Belt One Road country list (Alphabetical Order)

Afghanistan	Israel	Poland
Albania*	Italy*	Qatar
Armenia	Japan*	Romania
Azerbaijan	Jordan	RussianFed
Bahrain	Kazakhstan	SaudiArabia
Bangladesh*	Kenya*	Serbia
Belarus	Kuwait	SerbiaandMontenegro*
Belgium	Kyrgyzstan	Singapore
Bosnia	Laos*	SlovakRep
Brunei*	Latvia	Slovenia
Bulgaria	Lebanon	South Korea*
Cambodia	Lithuania	Sri Lanka*
Croatia*	Macedonia	Syria
Czech Republic	Malaysia*	Tajikistan
Egypt*	Maldives	Thailand*
Estonia	Moldova	Timor-Leste
France	Mongolia	Turkey
Georgia	Montenegro*	Ukraine
Germany	Myanmar(Burma)	United Arab Emirates
Greece*	Nepal	Uzbekistan
Hungary	Netherlands	Vietnam*
India*	Nigeria	
Indonesia*	Oman	
Iran	Pakistan	
Iraq	Philippines*	

Note Appendix Table 1 illustrates all "One Belt One Road" countries. The "Sea Belt" countries are annotated with asterisks

Appendix Table 2 M&A acquirer and target country list

Acquirer Country List
Australia, Canada, China, Japan, Singapore, UK, USA
Target Country List
(a) EU countries
Austria, Belgium, Cyprus, Croatia, Czech Republic, Demark, Finland, France, Germany, Greece, Hungary, Ireland Rep, Italy, Luxembourg, Latvia, Malta, Netherlands, Poland, Portugal, Slovenia, Spain, Sweden, UK
(b) Non-EU countries
Israel, Norway, Russia, Serbia, Switzerland, Turkey
(c) BRI EU countries
Belgium, Cyprus, Croatia, Czech Republic, France, Germany, Greece, Hungary, Italy, Latvia, Netherlands, Poland, Slovenia
(d) Non-BRI EU countries
Austria, Demark, Finland, Ireland Rep, Luxembourg, Malta, Portugal, Spain, Sweden, UK

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Unwary Dreams, Rude Awakenings: BRI in the Developing World and Emerging Europe

Sarmiza Pencea

Abstract One of the most remarkable economic ascents in the world's modern history is widely-recognized to be China's. In the recent over forty years, capitalizing on the favourable global trends of economic liberalization and globalization, drawing lessons from the other countries' development praxis and devising its own tailor-made domestic policies, this 1.4 billion inhabitants nation managed a spectacular catching-up process, transiting from isolation to wide integration into the global economy and making a stunning leap from poverty and famine to wellbeing, from the lowest international rankings to their top and from the world's periphery to its forefront. Within this narrow time-frame of about four decades, China became the second largest economy in the world, the world's leader in manufacturing and international trade, the holder of the largest foreign exchange reserve and the most important actor in many of the global markets. Such tempestuous economic growth, facilitated by policies such as the Belt and Road Initiative (BRI) eventually spiralled into politically-centred objectives aimed at extending Chinese interests abroad. This chapter will therefore examine the various pathways China is taking to progress its economic and political agenda, focusing particularly on the role of the current administration.

Keywords Economic liberalization · Catching-up policy · Belt and Road, BRI · 16+1 · Chinese outward investments

1 Introduction

One of the most remarkable economic ascents in the world's modern history is widely recognized to be China's. In the recent over forty years, capitalizing on the favourable global trends of economic liberalization and globalization, drawing lessons from the other countries' development praxis and devising its own tailor-made domestic policies, this 1.4 billion inhabitants nation managed a spectacular catching-up process, transiting from isolation to wide integration into the global economy and making

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Y.-C. Kim (ed.), *China and the Belt and Road Initiative*, Understanding China,
https://doi.org/10.1007/978-3-030-86122-3_6

a stunning leap from poverty and famine to well-being, from the lowest international rankings to their top and from the world's periphery to its forefront. Within this narrow time frame of about four decades, China became the second largest economy in the world, the world's leader in manufacturing and international trade, the holder of the largest foreign exchange reserve and the most important actor on many of the global markets. Throughout three of these four decades of swift development, China's yearly GDP increased by over 10% on the average, driven by enormous domestic and foreign investments in industrialization, urbanization and infrastructure development and by sizeable exports of price-competitive goods. That tempestuous economic growth, which was the highest a country had ever succeeded to maintain over such a long duration, made up the keystone of China's successful poverty alleviation endeavour, materialized in hundreds of millions of people getting rid of impoverishment.

China's rise also gave a new impetus to the international trade, foreign investments, industrial relocations and global economic growth and it deeply transfigured the world economy altogether. Consequently, for many of the analysts and scholars looking at Chinese economy it became increasingly obvious that it was just a matter of time until China started to turn its economic potency into political power, fighting for a leading role in the global rulemaking and governance reshaping and trying to transform them so that they respond better to Chinese interests. China's chosen pathway to this end was revealed in 2013, by its newly appointed president, Xi Jinping: it was the Belt and Road Initiative.

2 Briefly on BRI and Why It Came Along

On the occasion of two consecutive visits abroad (to Kazakhstan, in September and to Indonesia in October 2013), President Xi Jinping announced to the world China's new international strategy called *One Belt, One Road* (OBOR), which was intended to revive the ancient *Silk Road* at modern standards (*New Silk Road*/NSR) and to bring prosperity all along its routes through more tightly interconnecting Asia, Europe and Africa by land (the Belt) and by sea (the Road). While it is still used unaltered in China, the name OBOR has been changed since 2017 for international usage into the *Belt and Road Initiative* (BRI), in an attempt to counter foreign misperceptions[1] in its regard and to lay a special stress on the idea that it was not a strategy, but just a benign, well-intentioned initiative, a public good generously offered by China to the world.[2]

[1] OBOR was a curious name to many, especially in the West, as the strategy didn't seem to aim at just building one road or belt, but many more, also because naming the maritime lanes "a road" didn't make much sense in English. Moreover, this grand plan was quite clearly aiming at just linking all the other countries to China.

[2] The names and acronyms *One Belt One Road*/OBOR, *New Silk Road*/NSR and *Belt and Road Initiative*/BRI are used interchangeably.

And generous it seemed, indeed. According to the pieces of information gradually made available in the following years—especially after 2015 when the *Vision*[3] was published—China was going to invest hugely, trillions of dollars, in developing hard infrastructure networks that would improve interconnectivity between the three continents, building routes for faster and cheaper transports that were going to encourage trade, investments, job creation and economic growth, to the benefit of all the involved (i.e. win–win). Additionally, BRI—which was not conceptually limited to just hard infrastructure building and outbound investments, as it is often misunderstood—also, had in view many elements of soft infrastructure development, such as, for instance concluding international agreements on trade, investments, cooperation in production, transports, etc., harmonizing national policies, legislation, standards, etc., developing financial relations, cultural exchanges, people-to-people contacts.

As time went by, the strategy expanded in scope and geographic coverage. It came to have an eye to all the types of networks and human activities, to target all the continents, the Arctic and even space. From initially seeming to be focussing on building conventional but modernized transport routes (either highways, high-speed railways, channels, bridges, ports, airports or pipelines), it came to include and even lay a special stress on the more sensitive field of digital networking reliant on state-of-the-art telecommunications and space technologies. Moreover, in addition to aiming at building up-to-date conventional energy production facilities (thermo-power stations, hydro-power plants and the like), the strategy extended to the farms and parks that harness renewable energy sources—a positive move—but also to building nuclear power plants, considered a quite touchy domain, commonly raising significant concerns.

According to the *Vision* and to the official rhetoric, BRI was also a framework meant to propel outbound direct investments (ODI) in the industries of the participant countries, to speed up their development. But while the potential beneficiary countries expected sizeable Chinese greenfield investments in their industries, able to create jobs, diversify local supply and exports, and generate horizontal effects and economic growth, in practice, China—the leading force of BRI implementation and the main investor so far—gave a completely different meaning to industrial investments, focussing on either relocating abroad obsolete Chinese facilities, or on taking over already existing foreign companies [in both BRI and non-BRI countries, according to Griffith (2017[4])], preferably firms having a good track record in innovation and high technology development or benefiting from access to natural resources of interest to China. Moreover, although always speaking about investments, what China meant and did under the BRI umbrella was, in fact, to capitalize on its huge financial reserves, by extending loans to the participant countries under very peculiar terms.

[3] The document *Vision and Actions on Jointly Building the Silk Road Economic Belt and the 21st-Century Maritime Silk Road,* was framed by the National Development and Reform Commission (NDRC) and the ministries of Foreign Affairs (MoFA) and of Commerce (MoC), in 2015.

[4] Contrary to the Silk Road Fund's declared purpose, China used it to acquire the Italian tyre manufacturer Pirelli, as well as to buy stakes in two Russian companies (9.9% of Yamal LNG and 10% of SIBUR Holding).

OBOR/BRI was and it has still remained an extremely fluid, prone to misinterpretations and difficult to grasp strategy. It is still short of sufficient and reliable information and it lacks the definitions, rules and norms that regulate the relations between participants and set clear, unequivocal criteria on what qualifies a project as a BRI one. Nevertheless, in spite of being vague and confusing (or maybe precisely as a result of its vagueness?), it has exerted an undeniable attraction for many countries, mostly the less developed. That attraction was fundamentally motivated by real infrastructure and investments needs, but it was also stimulated by China's diplomatic reach, intense propaganda, various forms of influence and meddling, even by fuelling and capitalizing on local corruption.

There have been at least 65 Asian, European and African participant countries at the OBOR outset, but by 2018, their number raised to roughly 80, covering two thirds of the world population and summing up demand for infrastructure investment worth an estimated USD 4 trillion (Hillman 2018). Currently, BRI is already spanning about 138 countries with a USD 23 trillion combined GDP and a total population exceeding 4.4 billion. Obviously, all the continents are represented, and since 2018, even the Arctic has been incorporated into the BRI frame too, under the *Polar Silk Road* name. Moreover, besides the networks of terrestrial, sea, air and digital belts and roads, more recently China has also added to its strategy a cosmic corridor, labelled the *Space Silk Road,* overarching all of China's present and future activities in space research, exploration and mining and providing it benefits in terms of economic gains, future development and geostrategic repositioning (Hutchinson 2018; Aluf 2020). Undeniably, the strategy is huge in scale, costs and ambitions and at the same time is very bold, considering that a significant part of the participant countries is economically and politically unstable, prone to generate enormous risks and commonly not recommended for investments.

Therefore, what is BRI, after all, and why is China assuming such risks?

It seems easier to say first what BRI is not. BRI is not another foreign-aid programme and, despite some attempts to make comparisons, it has nothing in common with, for instance, the US Marshall Plan that helped Europe recover after the World War II. As Chinese officials have put it quite bluntly several times, it is not charity. BRI is not just a simple initiative either, as it was insisted to be called, it is a strategy of power and not a regional one, as it was initially presented, but one of a global span. It is neither an infrastructure-only grand project, simply focussed on building networks, but a complex plan that combines economic, social, cultural elements of hard and soft power. Moreover, BRI has also quite little in common with the ancient Silk Road, in many respects, but probably especially regarding their basic nature, as the ancient Silk Road was a spontaneously born, 'free market-driven' economic phenomenon focussed on regional trade, that was addressing the needs of communities and that did not even had a name (Chanda 2015),[5] while its newly initiated version is an

[5] The network of trails that connected China and the Mediterranean didn't have a name for almost two thousand years before 1877, when a German geographer, Ferdinand von Richthofen, coined the Silk Road name, used ever since.

ambitious top-down plan addressing the planner's interests, promoted and sold like a commodity through a marketing programme that needed a penetrant brand name. Consequently, the Belt and Road strategy came to smartly use, to the benefit of its own image, the attraction induced among people by the Silk Road name and history.

In our understanding, OBOR/BRI is a complex, multi-layered China-centric strategy, reflecting China's domestic and foreign policy purposes, meeting them primarily, both in terms of forging ahead its domestic supply-side reforms, structural rebalancing and technological advancement aims, and its strive for reshaping the world economy, global rules, institutions and governance, so that they all underpin and favour Chinese interests and endpoints. At the same time, BRI is a high-profile state-driven transnational project that marks a major departure from the principles that have formerly guided the Chinese economic rise, foreign policy and international relations. Presented as President Xi's signature foreign policy, his flagship project or sometimes even as his pet project, this strategy is not an entirely new concept, either. Similar ideas have appeared before in connection with other Asian regions even under the New Silk Road name[6] (Chanda 2015), and even in China, long before Xi Jinping's tenure, Deng Xiaoping seems to have had the intuition that such a strategy would prove necessary sometime in future, when China had become powerful enough and ready to reveal its ultimate goal of regaining its long lost greatness. It was most probably with that future in mind that he had famously recommended[7]:

- Hide your strength, bide your time
- Hide your ambitions and disguise your claws, [until the time comes].

The decades-long approach of keeping a low profile and of acting as an obedient apprentice in its relationship with the developed nations, helped China lull any suspicion or guard in the Western world. Convinced of its gradual adherence to the liberal principles and model, the Western countries and companies rushed to capitalize on the new opportunities emerged in Chinese markets, relocating industries, investing capital, transferring technologies, knowledge, know-how, training personnel and educating students. China absorbed everything, learned intensively and devised its own policies, institutions and laws that encouraged and even forced such transfers to its economy, while heavily implementing selective industrial policies and strictly controlling foreign access to its domestic market. When it gained enough economic clout, in the early 2000s, China introduced the *going out, going global* policy, and in the early 2010s, decided it could replace that policy with the more daring and complex OBOR. China has also initiated new regional groupings, such as the 16 +

[6] In 2011, the US Secretary of State Hillary Clinton proposed a New Silk Road trade and investment programme to underpin Afghanistan's development after the US troops' withdrawal, but China opposed to the use of that name at the time, pretending that it owned it.

[7] Deng Xiaoping paraphrased some old Chinese proverbs in a December 1990 speech.

1 platform in Europe[8] to be used as BRI implementation tools in their respective continents.

The price paid for China's swift economic growth was a strongly unbalanced development and a host of daunting structural problems that determined the former premier Wen Jiabao in the early 2007 to notoriously declare that Chinese economy was:

- Unstable, unbalanced, uncoordinated and unsustainable.[9]

Thenceforth, that diagnostic was aggravated by the outburst of the global economic crisis of 2008–2010, especially by the rampant governmental response with a huge USD 586 billion investment and fiscal rescue package.

When the new team Xi Jinping/Li Keqiang took over, in 2013, the economic situation was broadly the same. An impressive set of structural reforms that would have rebalanced the economy was announced at the time, but its initial extremely promising market-oriented nature was soon abandoned in favour of increasingly more pervasive intervention and control at both macro- and microeconomic levels, by state and by the more and more powerful and intrusive Chinese Communist Party (CCP). Chinese economy has remained unsustainable, and not many of its structural imbalances have been corrected, but in 2013, the launching of the OBOR strategy was seen as a means that would help solve both the domestic imbalances, inefficiencies and negative externalities of its growth and several of China's foreign policy goals.

The domestic challenges that drove the strategy's design included issues pertaining to China's declining economic growth, its chronic overinvestment and resulting industrial overcapacities across multiple industries, its collapsing domestic investment profitability, obsolete technologies, high level of pollution, eroding competitiveness, unbalanced development between provinces and between industries, plus the country's need for millions of new jobs every year, the imperatives of avoiding he middle-income trap and of wisely capitalizing on its enormous external reserve. Therefore, BRI was designed specifically to create foreign demand for the Chinese goods, services, capital, technology, know-how and expertise; to create jobs for the Chinese, both in China and abroad; to open opportunities for industrial relocations abroad, helping to nationally mitigate the problems raised by the obsolete, low tech and polluting industries; to contribute to bridging the economic development gap between provinces and to rebalance Chinese industrial structure by measures that induce a positive impact on China's export competitiveness and foster the development of high value-added activities. The overall economic impact of BRI was going to be finally captured and reflected by China's revived economic growth.

[8] 16 + 1 is a cooperation platform setup in 2012 by China and 16 Central Eastern European and Balkan countries (CEE16). Albania (AL), Bosnia and Herzegovina (BA), Bulgaria (BG), Croatia (HR), Czech Republic (CZ), Estonia (EE), Hungary (HU), Latvia (LV), Lithuania (LT), North Macedonia (MK), Montenegro (ME), Poland (PL), Romania (RO), Serbia (SR), Slovakia (SK), Slovenia (SI). 11 of these 16 countries are EU Member States (CEE11) while 5, the ones in the Balkans, are not (CEE5). After 2013, the 16 + 1 Platform has turned into an instrument of implementing BRI in Europe. In 2019 it included Greece, becoming 17 + 1.

[9] Premier Wen Jiabao's speech at the National People's Congress, March 2007.

Among the foreign policy, foreign trade and international cooperation main drivers of BRI, there have been issues such as:

(i) *China's need to address its poor neighbourhood relations.* One of the approaches that BRI could facilitate in this matter consisted in China offering its neighbouring countries the opportunity of becoming part of the infrastructure networks and the economic corridors that it intended to build, meeting simultaneously both some national challenges (e.g. hustling the development of landlocked or less-developed Chinese provinces by building connections to the nearby seas) and the neighbour countries' infrastructure and economic development needs. At the same time, China would also extend loans to these countries to cover the costs involved, usually promoting its own companies to carry out most of the construction work and deliver the necessary inputs. This system helped to more tightly tie the neighbouring countries to China through trade, investments, loans, influence, various commitments and their resulting economic dependency. The contractual terms put the borrower country at a disadvantage and that, along with all the concrete implementation challenges, have often worsened bilateral relations, rather than improved them.

(ii) *China's need to close long-term procurement agreements for natural resources.* To that end, China could negotiate with the relevant resources-abundant BRI-participating countries, agreements that associated China-financed infrastructure building projects with long-term procurement contracts for China-needed natural resources. Alternatively, it could also claim to secure the loans extended to those countries against the risk of default, by using their natural resources reserves as collaterals. When negotiating the financing of transport infrastructure abroad, China usually disregarded any economic rationality requirements and just made sure that the best routes that lowered the transport time, risks and fees for its own trade were selected, that Chinese companies, using Chinese equipment, materials and workforce were involved in implementation and as such, at completion, China could benefit from better international transport connections, at those countries' expenses. But inefficient assets can never repay interest-carrying loans taken to raise them, and the borrower countries had to settle their outstanding debts either by using the collaterals, or by asking for a credit rescheduling, which China usually accepted only if coupled with new projects, new loans and new collaterals.

In case the loans were taken to finance industrial capacity building in the BRI partner country—such as refineries, mines, power stations, seaports or airports—China could also try to secure the credit by asking to be paid in the goods produced (e.g. oil, minerals or power), or by convincing the borrower to accept to yield equities in the capital of the newly built asset in case the parties had to settle some outstanding debts. Becoming owner or shareholder in the social capital of foreign mines, power stations, refineries or other assets, could secure long term and safe provision of critical resources for China.

While it is not easy for these borrower countries to avoid or escape the debt trap, it is fair to say that in practice things almost never go smoothly for China either, and risks of default still remain high, especially when the debtor countries are already heavily indebted and/or undergo a great crisis, such as the current COVID-19 pandemic (e.g. the African countries' case).

(iii) *China's need to safeguard its oil transports through the Malacca and Hormuz straits*[10] (Anwar 2019). In this matter, the solution was to identify other more convenient land routes towards foreign seaports and shipping lanes to the Middle East that avoided those maritime chokepoints, and to negotiate with the transited countries the necessary infrastructure building contracts, backed by low-interest loans. Nevertheless, the Chinese loans are not as cheap as it is widely presumed, the more so as they are accompanied by multiple preconditions, claims for favourable terms for Chinese contractors and for strong safeguards (valuable collaterals, sovereign guaranties, swap-to-equity arrangements, etc.). The most relevant two examples here are the seaport of Gwadar (Pakistan), located on the shores of the Arabian Sea, at the extremity of the China-Pakistan Economic Corridor (CPEC), which is part of BRI, and the seaport of Kyaukpyu (Myanmar), which is placed on the shores of the Bay of Bengal, at the extremity of the China-Myanmar Economic Corridor (CMEC), also part of BRI. Both Pakistan and Myanmar are already heavily indebted to China and at risk of defaults. Both accepted to grant significant easements to Chinese companies (zero custom duties, tax holidays, the direct assignment of contracts, compulsory imports of inputs and labour from China, etc.) that crowded out local companies, pushing them into bankruptcy and some of the local industries into extinction. Both countries stopped, cancelled or asked to renegotiate some of the projects they had engaged with China.

(iv) *China's need to comply with its international commitments regarding high pollution and climate change.* To mitigate national pollution, one of the ways Chinese companies thought to adopt within the BRI framework—with a view to also restructure their industrial overcapacity, primarily the low-tech, obsolete and polluting units—was to limit scrapping and try to relocate or export part of the excess capacities to other BRI-participating countries. Obviously, such an approach could work for China in the short run and, irrespective of other contractual terms, it could seem acceptable even for some of the destination countries, but in a longer run perspective, that option is not at all a reasonable solution, either for the involved, or for the planet and the world's fight against global warming. It is worth highlighting, in the context, that under BRI, China is currently developing about 250 coal power stations in 25 Asian and African countries, of which not many incorporate carbon capturing technologies that would align them to the world's pollution control efforts and fight against climate change (Dorsey 2019).

There are, of course, other examples of how BRI can be of significant use for China to fully justifying its emergence and conceptual design, but here we will mention just two more, very important ones from the standpoint of Chinese international presence, influence and exercise of power: the support that BRI represents as a *vehicle for the internationalization of the Chinese companies*, as well as for the *larger use of RMB*

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[10] An estimated 80% of China's total oil supply passes through these two straits, which provide the shortest access route to Middle East, Africa and Europe.

as an international currency (as China is arduously promoting the use of RMB in the bilateral arrangements within BRI).

In the general perception and discourse, the BRI has already made the transition from a regional strategy status (which was short-lived and just declarative, anyway), to that of a de facto global strategy, as it seems it has been always meant to be. Also, in time and as the strategy started to be implemented and was better looked at, it became increasingly obvious that besides its economic motivations and purposes, there were more others, concealed by the win–win rhetoric, but present and potentially more important. Although the most visible, the most intensely debated and largely promoted as the main focus of the OBOR/BRI, the economic facet of the strategy was not always China's most important priority. Not thus far.

The strategy's implementation has kept revealing cases when the economic aims and gains seemed totally insignificant to China, inefficient and unsustainable BRI projects went on and did not seem to be anything but useful tools that helped this country pursue—and, to a certain extent, to also disguise—more ambitious targets of geoeconomic, geopolitical and geostrategic nature. Moreover, the BRI expansion to space, the Chinese companies' growing presence in the social capital and management of numerous (potentially dual-use) foreign ports or of mining sites around the world, their increasing involvement and investments in the undersea connectivity by telecommunication cables, as well as China's rampant development of its maritime fleet, its new dual technology thesis and policy, its recent change of the military doctrine (2015) so that the traditional concept of protecting *territorial seas* was replaced by those of *open seas* and *far seas protection,* etc., they all herald the globalization of Chinese presence and confirm again and again the geoeconomic, geopolitical and geostrategic facets of the BRI. Against this background, China's willingness to sacrifice the economic rationality by making risky investments (Devonshire-Ellis 2020)[11] in unsafe, debt-strapped, vulnerable countries that are, instead, either strategically well-placed on the globe, or rich in natural resources, becomes totally explicable if understood in this different key.

From a larger and a longer run perspective, bearing in mind that BRI is not only China's foreign policy centre piece, but also part of China's Communist Party (CCP) Constitution, this strategy could be seen as an attempt to ultimately bring China in a world-dominant position and create around it a new global governance system inspired from its own, resting on completely different fundamental concepts, using new institutions[12] and primarily servicing Chinese interests. In fact, by extending its presence in almost every corner of the world, on land, on and under the world's oceans and seas, in the air, in space and in almost every activity, by internationalizing its companies, banks and currency, its specific policies and development model, by creating new international institutions and leading the old ones, by striving to find

[11] By 2019, Chinese ODI under BRI were made in only 18% of the low risk countries; most of those investments were directed to medium risk and high-risk countries (in 68% and 28% of their respective totals).

[12] Such as: AIIB, New Silk Fund, New Development Bank, Chinese Courts for BRI disputes, a soon-to-come coordinating Chinese Agency for Foreign Aid programmes etc.

as many followers as possible and to make them dependent, etc., what China does through BRI is to promote another version of globalization. Its own. A *globalization with Chinese characteristics*, having China and its interests at its core.

3 Key Takeaways from the Non-European BRI Praxis

All along the years that passed since its launching, the Belt and Road strategy has encountered multiple challenges and significant implementation setbacks. While many countries still hope that Chinese involvement in their economy could give a boost to their overall economic growth and living standards, a rising number of the ones that did accept China's financial engagement and did entrust it with various building projects, under its specific terms, are currently increasingly critical of the Chinese companies' way of doing business and discontent with the outcomes. Additionally, the number of critics among the outside observers, including scholars, researchers from the academic world and analysts from specialized media, has also increased. Moreover, a rising number of foreign official representatives from different countries and international bodies voice similar critical observations and concerns. These reactions are basically of two types: they either make reference to the faulty commercial terms and business model of the Chinese companies that are carrying out BRI projects abroad, or they derive from the beneficiaries' dissatisfaction with the outcomes and consequences of the completed projects (Pencea 2018). The range of critical reactions covers several major reasons of discontent:

3.1 Faulty Project and Infrastructure Route Selection

Chinese companies are usually proactive and, irrespective of the borrower country's interest or priorities, they quite often initiate negotiations and offer funding and project execution packages for certain routes of interest to China, either in terms of improved international transport safety and optimized transport time and cost for Chinese trade, or regarding totally new transport connections for its landlocked, less-developed regions in need for an economic boost. The consequence is that the transit countries that accept such packages come to borrow significant interest-bearing amounts, not necessarily for their own priorities and needs, but for China's. China is in fact building better, shorter and safer routes primarily for its own interests, on the transited countries' expenses, and additionally, it earns important amounts in interest receivables on loans. At the same time, the host countries pile up debts which they often are unable to repay, while neglecting their more stringent domestic needs. Pakistan offers a good example on how China turns a deaf ear to its partner's insistence on shifting the focus of their bilateral cooperation from financing China-initiated and mostly China-needed infrastructure and energy projects, to investments in agriculture and manufacturing that create local jobs and meet primarily the local needs and demand of the Pakistani population (Dorsey 2019).

3.2 Tilted Playing Field, Unfair Competition

Besides the strong support that all the Chinese state-owned companies (SOEs) and a selected group of the private ones (POEs) permanently get through the governmental industrial policy (subsidies, tax exemptions, access to cheap credit, debt write-offs, infant industries or national champions preferences etc.), the ones that activate in infrastructure building and choose to capitalize on the BRI opportunities, benefit additionally from the favourable commercial terms forced on the host countries by contracts. These usually include provisions regarding the direct assignment of contracts to Chinese building companies, without tendering, and the mandatory use of equipment, raw materials, other supplies and labour imported from China. It was documented that, far from the international practice in this field, 89% of the Chinese-financed BRI infrastructure projects launched in 34 Asian and European countries before 2018, had been assigned to Chinese contractors, and only the balance of 11% was left to other companies, either local (7.6%), or foreign (3.4%) (Hillman 2018). Also, the projects assigned to Chinese companies have been completed using predominantly or exclusively Chinese inputs.

Moreover, the contractual terms in the bilateral deals with China usually include many other preconditions, such as long-term tax exemptions for the Chinese companies and no custom duties for their imports. More often than not, these contracts also totally ignore any environmental protection imperatives and provide for the mandatory exports to China of the energy, raw materials or other goods of interest produced when the asset enters in operation. The consequences may become dire. In Pakistan, for instance, the favours granted to Chinese companies in terms of tax and custom duties exemptions pushed many local firms into bankruptcy and made havoc of entire manufacturing fields (Chansoria 2018). In Myanmar, on the other hand, a huge, 6,000 MW hydro-power station project could have entailed massive environmental destruction without a matching gain for the beneficiary country, which is still largely not electrified, as the now suspended USD 3.6 billion Myitsone project provided for the flooding of 600 km^2 of forestland and the export to China of 90% of the power produced. China is still lobbying on restarting the project (Dorsey 2019).

3.3 High Indebtedness and Debt Trap Risks

Contrary to the common belief, Chinese credit is not cheap. As expected when China is involved, information is shrouded in secrecy and scarce, especially in this matter, but, however incomplete and patchy it is, it still provides a clear enough picture on how the BRI win–win promise is far from being honoured. International practice shows that in BRI projects, even when the interest rates claimed by the Chinese policy banks[13] go below the commercial rate levels, (which is not a common behaviour for them), they are not lower than 2.0–3.0%. That is still much above the interest rate accepted by other lending countries—such as Japan (0.25–0.75%), or India (maximum 1%)—as well as by the multilateral development banks, such as IBRD or ADB (0.25–3%). Moreover, in time, they usually escalate gradually to 5% and more (Anja 2017).

However, in the majority of cases, the interest rates were quite high from the outset: in Sri Lanka (the Hambantota seaport project) and in Pakistan (the CPEC projects), they climbed to 6.3% or even 8–10%, respectively (Economic Times 2018). Pakistan currently pays 7% annual average interest rate, so that the amounts due reach 0.5–1.0% of the country's GDP. According to Chansoria (2018), by 2024 Pakistan will have to pay almost USD 100 billion to China. The interest rates claimed for Chinese loans to Russian borrower companies also reach 7%, while those extended to the Southeast Asian countries go as high as 8.8% (Godement and Vasselier 2017). Often, the interest level of Chinese loans is correlated with other preconditions agreed on during negotiations. The more preconditions that are important for China are accepted by the host country, the lower the interest rate for loans might become, which is not necessary advantageous, because one way or another the cost goes up and the borrower either pays more, in different ways, or takes higher risks. A rough idea on how cumbersome these loans might become is provided by Pakistan's declaration to IMF about having to pay to China USD 40 billion over 20 years, for USD 26.5 billion loans invested in CPEC projects (Dorsey 2019).

The debt burden in various extremely vulnerable countries is sometimes overwhelming and many of them owe huge amounts particularly to China because, on the one hand, they genuinely need investments and may not have access to other sources of capital, and on the other hand, Chinese companies use all sorts of methods (corruption and bribery included) to lure into extremely high value projects particularly such countries, with great investment needs and reduced bargaining power. They may easily become victims of the debt trap and become increasingly dependent on China. Between 2014 and 2018, for instance, Chinese firms extended loans amounting to over USD 72 billion to various African countries, so that the external debt servicing to China reached 10% of GDP in Nigeria, 17% in Ethiopia, 33% in Kenia and 70% in Djibouti (Wilson 2020). The debt toll owed to China also raised to almost 25% of GDP in Laos, Tonga and Kyrgyzstan and to levels between 10% and 20% in many other poor countries in Africa and the Pacific (The Economist 2020). According to the Centre for Global Development (US), 23 of the 68 countries benefitting from China-backed investments under BRI are vulnerable to debt distress, and eight[14] of the 23 are at the highest risk globally (Hurley et al. 2018). Among them, a small European country, Montenegro, has a debt that accounts for 83% of its GDP and is in danger of losing to China its seashore, used as collateral.

[13] China Development Bank (CDB), Export–Import Bank of China (Eximbank).

[14] Pakistan, Tajikistan, Djibouti, Kyrgyzstan, Laos, the Maldives, Mongolia and Montenegro.

3.4 Claims to Strongly Secure Chinese Loans

Chinese loans are commonly quite well-secured against the risk of default by sovereign guaranties, collateralization, the debtor's commitments to accept debt-to-equity swaps to settle the outstanding payments, or by other arrangements. China's preferred collaterals seem to be natural resources, but empirical evidence shows that other valuable assets, such as the object of the building project itself, or land, could be sometimes even better for China.

One notorious example is that of the expensive Hambantota seaport in Sri Lanka. Refurbished and upgraded by Chinese companies, but commercially unviable after completion and, therefore, unable to service from its returns the USD 1 billion debt, this deep-sea port, strategically located at some of the busiest maritime trade lanes in the world, was turned over to China for 99 years. Another telling example is the case of Tajikistan, the first Central Asian country trapped in debt, which had no other way of having its debt to China written off, but to cede the ownership over a 1158 km^2 piece of disputed territory. The amount of debt was undisclosed (Dorsey 2019).

Finally, we also cite here the case of the Democratic Republic of Congo (DRC), the depositor of over half of the world mineral cobalt resources and the provider of about 70% of the world's cobalt—a critical ingredient for the production of high-capacity batteries needed to propel electric vehicles and provide energy to a host of high-tech products (Todd 2019). As China aims at becoming the dominant player in the global market for electric cars, it needs reliable supplies of cobalt. In 2007, it managed to sign a USD 6 billion *minerals for infrastructure* deal with Congo and ever since it has negotiated several credit-funded investments in the Congolese economy under the BRI framework: at present, the first 2340 km highway out of a planned total of 15,600 km of roads and highways plus a 5000 km railways network are under way, while other investments in hospitals, dams, hydro-power stations, stadiums, real estate etc., will follow for the next 10 to 15 years. The USD 24 trillion worth of untapped mineral resources of this country,[15] many of them critical for the high-tech industries of the future, are an ideal collateral for China's envisaged investments there and make a much-needed long-term source of cobalt, coltan, lithium, copper and other minerals for its high-tech rising industries (Batabyal 2019). In about one decade, by using *soft diplomacy* (mainly by being non-judgemental of the Congolese political regime), building infrastructure and debt-trapping Congo in the process, making acquisitions, investments, all sort of alliances and tapping on the local corruption and governmental secrecy and opacity regarding contracts, China has come to control seven of the largest DRC cobalt mines and over half of the cobalt production, establishing a monopoly over the extraction, processing and distribution of this rare resource (Todd 2019; Ross 2015; Bavier 2009).

Reflecting a new understanding and a significant change of heart towards the large and costly Chinese involvement in their economies, a growing number of developing countries that have enthusiastically enrolled in China-financed BRI projects a few years ago, are now trying to mitigate some of the risks involved by suspending,

[15] According to United States Geological Survey.

cancelling or scaling back some of the previously accepted large-scale projects. As already mentioned above, Myanmar stopped the USD 3.6 billion Myitsone project and intends a substantial scale back of the plans and costs (USD 10 billion) entailed by the Kyaukpyu seaport and economic zone project which is of utmost importance for China's transports of imported oil (Sharma 2018). Due to *the tough financial terms imposed by China,* Pakistan cancelled the USD 14 billion Diamer Bhasha Dam project; Nepal also gave up a USD 2.5 billion hydro-power station project plagued by *financial irregularities* (Dasgupta and Paricha 2017). Malaysia halted more China-backed BRI infrastructure projects worth USD 23 billion, and later on, it scaled back and renegotiated some of them. It slimmed down the cost of the railway link between the East and West coasts and agreed on building a new USD 1 billion industrial park, to develop an artificial intelligence (AI) hub with *SenseTime*, a Chinese unicorn which will transfer AI technology, provide expertise and technical support (Wang and Lahiri 2019).

The ongoing COVID-19 pandemic and the economic distress that it causes all over the world have worsened the debtors' prospects of paying back the amounts due and many of the heavily indebted countries in Africa and Asia are now asking China for debt relief and write-offs. Pakistan, China's largest borrower, required debt relief for power projects loans worth USD 30 billion, after securing USD 1.4 billion from IMF, USD 300 million from ADB, USD 500 million from IBRD and asking for a USD 1.8 billion debt deferment from the G-20 countries. China can hardly deny such concessions to Pakistan, where its strategic CPEC projects cumulate its largest BRI commitments (over USD 50 billion) and also can hardly refuse other partners of significant strategic value, such as Bangladesh, Myanmar, Sri Lanka and Nigeria, having a difficult decision to make on how to address them without triggering a chain reaction—which it cannot afford—among its many other indebted partner countries (Aamir 2020). In fact, China is in a difficult position itself and very reticent on forgiving debts, as such. According to data from the Institute of International Finance, its outstanding debt amounts to USD 5.5 trillion, accounting for roughly 40% of its annual GDP (Wilson 2020). China has become the largest global lender, and notably, around half of the loans extended globally to the most susceptible of default countries are Chinese. As of 2018, low-income countries owed USD 104 billion to China, and many are currently seeking to get debt relief. Understanding that continuing to extend such loans is not sustainable and that a debt crisis among the countries implementing BRI projects would compromise the entire idea of the BRI model, China has already chosen a more prudent and restrained approach on lending, which will most probably be reflected in the way it solves the debt relief challenge too.

4 The 17 + 1 Platform[16]—A Dysfunctional BRI Tool in Emerging Europe

4.1 The General 16 + 1 Landscape

Far from being as well-known as the Belt and Road Initiative, the 16 + 1 platform for dialogue and cooperation established in Europe in 2011–2012 is in line with the usual Chinese foreign policy practice of either capitalizing on already existing country groupings in a certain region, or creating new multilateral formats in places where it is interested to increase its presence and influence.

China's motivations to set up this format have been both economic (to secure its existing markets and open new ones, to increase and diversify exports, use its overcapacities, support domestic economic reforms etc.) and political (to revitalize its relations with the former socialist countries, develop new political friendships, extend to Europe its model of *multilateral bilateralism* considered instrumental in transferring Chinese values, solutions and model into the region (Szuczudlik 2019). At the same time, China also had significant geopolitical and geostrategical motivations and goals to create this format: to extend and substantiate its presence and influence in an area where it has always been virtually absent; to gain a dominant position in the *weaker link* of the European construction and to subtly use it whenever necessary; to globally project and strengthen its image of a successful rising power that has already established its outpost in the Old Continent. As Turcsanyi (2020) put it, through 16 + 1, the CEE countries

- became part of China's extended neighbourhood, as the western most tip of the Initiative.

On the other hand, the Central and Eastern European countries' participation in the 16 + 1 platform was motivated by mostly economic reasons, particularly by the imperative of finding new sources of capital and new export markets to help them recover in the aftermath of the global economic crisis of 2008–2010.

The platform included along with China a very inhomogeneous group of 16 China-selected Central and Eastern European countries (CEE16) having just one common denominator besides their European heritage: their communist past. Otherwise, the CEE16 could not have been more diverse: eleven of them were EU members (CEE11), whereas the other five, located in the Western Balkans (CEE5), were in different stages of the EU accession process; a sub-group of the 16 included twelve NATO members,[17] while the others were not in the Organization; many of these countries share a long history of rivalry and confrontation and all of them differ significantly

[16] NOTE: We definitely recognize the new official name of the China-CEE platform (17 + 1), but, as Greece has joined only in 2019 and had no involvement in the platform before, while our analysis looks at precisely the 2012–2019 time-frame and at the original 16 members, to avoid any confusions, in this paper we will still use the initial name of the format (16 + 1), as well as acronyms CEE16, CEE11 (also its EU17 complement in EU28) and CEE5.

[17] In the meantime, the number of NATO members within the 16 + 1 platform has raised to 13: CZ, HU, PL (since 1999), BG, EE, LT, LV, RO, SK, SI (since 2004), AL, HR (since 2009) and ME

in terms of language, religion, culture, economic development levels, priorities. In 2019, as if to increase the patchiness of the platform even more, the first enlargement took place and Greece, the only participant that was neither a member of the former communist bloc, nor a candidate to the EU, but an old EU and NATO member and a consolidated capitalist democracy, joined the format (Ciurtin 2019). Since its enlargement, the platform's name was changed to 17 + 1.

It seems significant to highlight here that, probably precisely because of its patchy composition, this group of countries has never been perceived and recognized as a region per se before the platform was created. But once the 16 + 1 format was set up by China, the territory it delineated in Europe came to be treated as a distinct region, where China had already become a recognized actor *projecting its dominant position in asymmetric relations*. Undoubtedly, marking its footprint in a territory where it had never before exerted its influence and power was a positive outcome for China, its global image and standing, but not at all that good for the CEE16, who came to be seen as a group that was too influenced, dependent on and too authoritatively led by a superior ' + 1'. (Vangeli 2018; Szuczudlik 2019).

Considering the patchiness of the group, it was quite difficult to infer how was China going to coagulate and coordinate these countries around some concrete development projects, and also how and by whom were these projects going to be decided. But looking back at the way China managed the entire construction and at the few economic accomplishments since 2012, it seems that no real intention to coagulate the group has ever existed, but rather on the contrary, it was the idea of creating a breach between these countries and the rest of the EU at a critical time, and then playing bilaterally a game of negotiations, promises and preconditions, *carrots and sticks*, pushing them into fierce competition with one another and into *a race to the bottom* for China's benevolence and investments. A game of power, in two episodes: first separate the EU East from West (*divide et impera*), and then show some prize to the Eastern players (as for instance a USD 10 billion amount earmarked for regional investments) and let them afterwards compete and fight with one another for an elusive *piece of the pie* (the USD 10 billion investment repeatedly promised by Chinese officials turned out to be just a credit line shrouded in mystery, about which nobody really knows anything for sure, especially if it was used, by whom, to what extent and for what purposes). The bottom line of this power game was that neither the most reluctant, nor the most enthusiastic and devoted to China countries in the CEE16 received the promised investment inflows they hoped for. That showed that China could not compete with the more advantageous and safer EU financing programmes, Chinese companies could not comply with European rules and, from the economic gain standpoint, that China, and its companies might not have been genuinely interested in funding and implementing CEE16 projects, as long as they could get higher benefits, much easier, from their investments in other continents.

What China was really interested to obtain for now, and it did succeed in doing that, was to become a player in the region, right in the European Union's courtyard,

(since 2017). The 17 + 1 includes another NATO member state, Greece, bringing the total to 14 NATO members.

to the significant annoyance and alarm of the Union. Also, in support of building its dominant great-power image, it succeeded to generate a strongly asymmetric framework, in which all the other participants—Europeans—allow China to initiate, help, solve, finance, give guidelines, coordinate, decide. Over time, this asymmetry was very slightly attenuated, but the design, functioning and even the name of the platform speak out about China's superiority, power and dominance that it wields over all the others. To put things into their real context and perspective, though, we must underscore that the true degree of dependence on China experienced by these countries is considerably minor to the one existing in their relationship with the EU, and moreover, it cannot even develop too much further on.[18] However, the 16 + 1 format was not meant to be, and it is not an association between equals, and that is highlighted in numberless ways every step of the way. What is even more disturbing is that, according to Szczudlik (2019), Chinese experts consider that the 16 + 1 format exemplifies well-enough the *Chinese solution*, the *new model of international relations* in China's vision.

While initially considered just as a facilitator of the regional interactions and cooperation with China, since the 2013 launching of OBOR, the 16 + 1 platform has become the strategy's main implementation instrument in Central and Eastern Europe. However, given the complex nature of the CEE16 group, on the one hand, and China's own inability to assess and understand that nature accurately enough, on the other hand, the Chinese approach to the region was not properly thought of and adjusted, so that its interaction with the 16 countries has long remained plagued by misinterpretations and disproportionate expectations, on all sides.

Coming soon after the global economic crisis—when the whole of Europe was badly hit, the EU managed only a difficult and lengthy recovery and could not invest enough in its new member states—China's USD 10 billion credit line plus the amounts added later (Godement and Vasselier 2017)[19] and pledged for investments in the CEE16 region, as well as the repeated promises of massive investments made by Chinese politicians have nurtured unrealistic expectations in these countries. They hoped for both infrastructure and greenfield investments to create jobs and trigger chain reactions across their local horizontal industries, giving a boost to national production, consumption and exports, whereas China's intention was at best to simply capitalize on its overcapacities in infrastructure building, its overproduction in building materials and equipment and its large reserves of capital, labour and expertise, demanding sovereign guaranties to protect the loans granted and direct assignment of contracts to its companies, to protect them from competition, too rigorous standards, rules and feasibility requirements. Obviously, China tried to use the same package it had offered and the same business model it had used in underdeveloped Africa and Asia, but only a few of its attempts have been successful in

[18] Resulting from their stronger economic relations, the dependence—for instance—of many of the EU17 countries on China is higher than that of any of the CEE16, or of their group taken together.

[19] The USD 10 billion amount was supplemented twice, first with another USD 1.0 billion credit line and then with an additional USD 3.0 billion fund.

Europe, mainly in the Balkan countries, where the availability of investment capital was comparatively lower.

4.2 Outcomes of China-CEE16 Economic Cooperation

In the aftermath of the 16 + 1 setup, China-CEE16 interactions reached their highest intensity ever. The platform stimulated a significant growth in political interactions within annual summits, numerous conferences, mutual visits and meetings at all levels that have rendered positive results politically and in people-to-people relations. But, while these activities had some merit, they were not followed by substantial enough economic cooperation initiatives, signed contracts and visible achievements. From its initial aim of becoming a platform for *dialogue and cooperation,* the 16 + 1 format managed to intensely honour only the *dialogue* part and extremely less the *cooperation* side of that commitment. As such, formal meetings have gradually lost attractiveness and the members' participation became inertial. For years these frequent interactions and the accompanying propaganda managed to preserve for the outsiders the appearance of a vivid, prodigious activity, but in the backstage, for the CEE16 insiders, the reality was increasingly farther from expectations and disappointing.

The EU worries of too large a Chinese economic involvement and clout in the CEE16 countries and the *common knowledge* that China was making significant inroads into the region turn into simple unfounded suppositions when the real Chinese engagement is assessed in straight economic terms. It comes out that China's presence in Central and Eastern Europe is in reality quite modest: only the imports from China and the investment loans extended in the Balkans recorded a real upsurge, while the region's exports to China, or the inflows of Chinese outbound direct investments into the 16 economies have progressed sluggishly. Moreover, the consequences induced to the economies in the region by these asymmetric developments have been negative and worsening as time went by: almost all of these countries have come to run large and growing trade deficits with China and some of them to pile up considerable debts, while their achievements in terms of infrastructure and industrial development remained quite unimpressive.

As resulted from the UNCTAD (2018) statistics, only less than 2% of the region's exports reached directly China's huge market, while China accounted for less than 9% of the total regional imports. Also, Chinese investments in the CEE16 countries accounted for less than 1% of the overall foreign investments attracted by them. From China's perspective, things do not look any better, as only about 3% of the Chinese overall exports reached the 16 markets, and far less than 1% of the Chinese global ODI stocks came to be hosted by their region (Turcsanyi 2020).

Understandably, both China's trade and investment relationships with Europe are focussed on the Western European countries, the most developed half of the continent (EU17), targeted for its markets and high technology. But the 16 + 1 platform was allegedly meant to help the CEE16 accelerate development and catch-up with the

Table 1 China–Europe trade in 2010 and 2018 (USD, million and %) Total bilateral trade

Total bilateral trade (Exports + Imports)	2010	2018
China-EU28	481,467	691,897
China-EU17	438,596	611,804
China-CEE11	42,871	80,093
China-CEE 16	43,892	82,260
China-total Europe*	482,488	694,064
China-CEE11 versus China-EU28	8.9%	11.6%
China-CEE11 versus China-EU17	9.8%	13.1%
China-CEE16 versus China-EU17	10.0%	13.4%
China-CEE16 versus China-total Europe	9.1%	11.8%

Source Computations using UN Comtrade Database
Note *We consider here total Europe as the countries of EU17 and CEE16 taken together

West, and that does not seem to happen with China's help, neither in terms of trade, nor investments.

4.2.1 China-CEE16 Trade

China and the EU28 have developed one of the most important trade relations worldwide exchanging goods worth about USD 1.8 billion daily, but the bulk of trade is still between China and the Western developed countries (EU17), whereas the newly integrated in the EU, the CEE11 economies, account for less than 12% of the total (Table 1). Also, although growing, China-CEE16 trade in goods is still modest as compared to that between China and the EU17 group, accounting for less than 14% of its total in 2018. However, what is more worrisome than this trade volume gap, is the bilateral trade composition by flows, with imports from China always larger and increasing much faster than the exports of the 16 countries, leading to trade deficits in all except one of the CEE16 (UN Comtrade 2021).[20]

Only in 2018, the cumulated trade deficit of the CEE16 group with China raised to a startling USD 35 billion.

4.2.2 China's Investments in CEE16

In the aftermath of the global economic crisis, the CEE16 economies needed increased investments to stimulate growth and were primarily interested in attracting foreign greenfield investments and technology transfers. Borrowing was only the

[20] According to UN Comtrade Database, by the end of 2018, Slovakia in the CEE16 group and Austria, France, Germany, Ireland and Sweden in the EU17 were running trade surpluses with China. All the others were running deficits.

third best option after using the EU financing programmes and attracting foreign direct investments. On the other hand, China has proved all along the years since the 16 + 1 platform and BRI had come up that it was much more interested in either extending loans to the CEE16 countries under similar terms as it had offered in the developing Africa or Asia, or in making acquisitions of European innovative high-tech companies, preferably in the EU17, invalidating as such its much advertised commitment to support the CEE16 region's rise.

As Chinese proposals to emerging Europe have been almost identical to the ones launched in the developing world elsewhere, the same controversial issues pending to the contractual terms, project feasibility and local impact appeared in the negotiations with the CEE16 countries too. Yet, what was entirely different and changed completely the final course of events was the fact that these countries were not short of other options, as the African or Asian countries had been, but on the contrary, they benefited from much more advantageous EU financing programmes, even from grants, plus other various additional forms of EU support. At the same time, these countries, especially the CEE11, had to comply with certain rules and limitations, established by the EU precisely to prevent them from inducing macroeconomic imbalances in their economies and/or from disrupting the internal free market functioning by breaching the competition rules.

Under the circumstances, with the mismatch between what China wanted and what the CEE16 countries needed, and given the opportunities and restrictions that the EU membership were entailing, the Chinese investments in emerging Europe increased very slowly, at very low levels (Table 2) (Pencea 2019): in the worst year (2016—when, not surprisingly, Chinese ODI in Western Europe hit a record high), the amounts invested in the CEE16 region accounted for little over 1% of the sums invested in the EU17 countries; in the best years (2010 and 2018), they accounted for little over 7%. It is important to underline that the largest part of the modest investments directed to the CEE16 commonly went to just a group of four or five favoured countries, primarily to Poland, Hungary, the Czech Republic, Serbia and in some years Romania. Looking at these developments from the EU17 countries'

Table 2 Chinese outward direct investments in Europe, 2010–2018 (USD, million and %)

	2010	2011	2012	2013	2014	2015	2016	2017	2018
EU28	5964	7561	6120	4524	9788	5480	10,038	10,176	8866
EU17	5547	7432	5970	4433	9595	5326	9934	9904	8430
CEE11	417	129	150	91	193	154	104	272	436
CEE16	419	130	158	118	208	174	116	369	620
Total Europe*	5966	7562	6128	4551	9769	5500	10,050	10,276	9050
CEE11 versus EU28 (%)	7.0	1.7	2.5	2.0	2.0	2.8	1.0	2.7	4.9
CEE16 versus EU17 ()	7.5	1.7	2.6	2.7	2.2	3.3	1.2	3.7	7.3

Source Computations using statistical bulletin of China's outward foreign direct investments, MOFCOM, (various years)
Note *We consider here total Europe as countries of EU17 and CEE16 taken together

standpoint, numbers may seem impressive as they show that no less than 93% to 99% of the Chinese investment flows to Europe have been directed to the EU17 economies. But that is not necessarily such a positive fact, in case those numbers illustrate (and they do) that more European high-tech companies and other valuable assets have been taken over by Chinese competitors.

According to MERICS data base, between 2000 and 2019, China invested in the European Union USD 183 billion, of which less than USD 10 billion were directed to the Central and Eastern European countries. The bulk went to Poland, Hungary and the Czech Republic, which received around USD 5.5 billion altogether. The UK received USD 57 billion and Germany around USD 25 billion, ranking the first among the most favoured Western European beneficiaries of Chinese ODI (Brânză 2020a). The amount invested by China only in those two countries is 5.5 times and, respectively, 2.5 times higher than that directed towards all the CEE16 countries taken together.

The only countries in the 16 + 1 platform having both fewer funding options and fewer restrictions on engaging foreign credit, were—and they still are, the ones in the Balkans which, under the circumstances, have become the most important destination of Chinese loans for infrastructure development in the region. For lack of options, some of the most criticized aspects of the Chinese package offered in Asia and Africa under BRI were accepted by the CEE5 and, inevitably, their negative outcomes have soon appeared.

The Odyssey of the Belgrade-Budapest speed train

One of the most relevant European examples of how the *faulty project and infrastructure route selection* and the *tilted playing field* in the Belt and Road strategy implementation can compromise a project, is the case of the Belgrade-Budapest high-speed rail. The project was initiated by China in its big push of building a faster connection between the Greek port of Piraeus, which it controls, and the richest European markets in the Western and Northern parts of the continent. Launched in 2013 as a part of the Land-Sea Express Route, the project was not only meant to become a bridgehead of BRI to Europe, but also to showcase Chinese technological capabilities and prowess in the realm of modern railway infrastructure and transports and spur building contracts and exports to Europe. But the negative reactions and numerous critical observations made to the project following its announcement, shed light on similar drawbacks as identified in other previous BRI infrastructure financing and building projects implemented by Chinese firms abroad (Pencea 2018): (i) *the inconsideration of local needs* (the train connection was mainly for international cargo transports and would not provide any services to a host of settlements that it would pass by); (ii) *the disregarding of local conditions and geography* (the 200 km/h speed was not feasible); (iii) *the neglecting of the beneficiaries' payment capacity* (conceptually very expensive, the Chinese proposal involved costs much above what the two countries could afford and it had to be renegotiated and adjusted to only a project of refurbishing the already existing line); *(iv) the casting aside of the rail profitability issues while in operation* (the too low traffic intensity on that route rendered the project unprofitable and unable to sustain debt payback); (v) *the disdain for* *investment recovery* (it is too expensive for a rail crossing a plain, and according to some estimates, it would take Hungary between 130 and 2400 years to recover the investment and render it efficient) (Vörös 2018; Brânză 2020b). Additionally, in Hungary, the project implementation recorded attempts of breaching both some local laws (that established limits of acceptable national indebtedness) and European competition rules (by trying to avoid a public tender and to directly entrust the contract to a Chinese company), as well as accusations of corruption, abuse and debt trap risks.

All of the above have happened many times before in other BRI projects, but while in those cases problems have mostly surfaced post factum, in this case they could be addressed, or at least acknowledged, before the damage was done. The EU stopped the Hungarian project for investigations, Hungary had to organize a tender and some of the contractual terms have been improved. While, after seven years, in Hungary the project did not start yet, in Serbia its implementation has already started three years ago (2017) and is advancing. Hopes are that it could be finished by 2025.

The disconcerting case of the Bar-Boljare motorway

Another relevant example, this time in terms of experiencing *high indebtedness and the debt trap risks* induced by some of the BRI projects is the case of Montenegro**.** This case is also indicative of the dangers entailed by the submittal to Chinese pressures to *secure the loans received by using land and other assets as collaterals.* Montenegro, a tiny state of little over 600 thousand people, decided to give a boost to its loss-making port of Bar on the Adriatic seashore, by connecting it with the city of Boljare near the Serbian border through a 170 km highway that was going to be continued by the Serbian neighbours up to Belgrade. For lack of other contractors willing to get involved in an inefficient project, the first 41 km of the motorway were entrusted to the building company *China Road and Bridge Corporation* (CRBC), backed by a USD 1 billion loan from *China Exim Bank*. In 2018, the Montenegrin government and the CRBC agreed on also building the second part of the motorway, the Balkan country getting an additional USD 1.7 billion loan from *China Exim Bank*. The USD 2.7 billion credit bearing a non-preferential interest must be returned in tranches starting from 2021 and, in case of default, the Chinese bank (the Chinese state, in fact) could take the collateral, consisting in a piece of the country's land (a coastal strip at the Adriatic Sea) and some other valuable real estate assets (G4Media 2019; Popescu and Brânză 2018).

According to the IMF, by the end of 2019, the total public debt of Montenegro exceeded 80% of its national GDP, the bulk of it consisting in debts to China. Not only the Bar-Boljare project contributed to the country's heavy indebtedness, although it was the most expensive one (around USD 3 billion, interest included), but also some other projects carried out by Chinese companies and financed by China's state banks. Among them, a USD 7 million Kolasin-Kos railroad rehabilitation project and a USD 100 million wind farm project on Mount Mozura.

A study by the Centre for Global Development in Washington included Montenegro among the 8 most vulnerable economies in the world, facing a high risk of being caught in the debt trap. The study underlined that China's track record in managing debt distress was problematic and that, unlike other creditors, China did not sign to a binding set of international rules on avoiding unsustainable lending and ways of addressing default (Hurley et al. 2018). Trying to find the necessary amounts to start paying back its debt, the Montenegrin government had to cut the social benefits for mothers, freeze the public servants' wages and raise prices for power. Similarly to several other China-financed infrastructure projects within BRI, the Bar-Boljare motorway is not financially sustainable, it generates financial instability and its implementation does not involve much of the local companies, materials or labour, in a country where unemployment reaches 11% in the most active economic areas, near the sea, and goes up to 33% near the Serbian border. On top of that all, the Chinese contractors carrying out the project are exempted from paying VAT and customs duties for their imports (G4Media 2019).

4.2.3 Falling Out of Love with China?

As the 16 + 1 platform's non-performance became increasingly obvious and as the international context has substantially changed, the CEE16 states have gradually adopted more nuanced stances towards the 16 + 1, BRI implementation ways and their true potential to help the region. A more sober, even sceptical mood has gradually set in, especially among some of the CEE11, as not many achievements could be reported after years of much dialogue and not so much cooperation. In terms of commercial exchanges, although they exported more to China, the CEE16 imported way more, coming to run chronic and growing trade deficits in their great majority. In terms of infrastructure development, for lack of better examples, the Pupin friendship bridge in Belgrade has been for too many times presented as a successful deliverable of the 16 + 1/BRI tandem-initiatives, while the stupendous Belgrade-Budapest high-speed train turned into a regular rail connection and got stuck for over seven years, the motorway in Montenegro became a huge burden for the Montenegrin population and a nuisance for China, and many other project ideas either remained only on paper, or they have simply collapsed after long years of unfruitful negotiations, as in Romania's case.

A huge gap kept widening between the rhetoric about grandiose investment projects that would speed up the catching-up processes in CEE16 and the poor-in-achievements reality. According to Ciurtin (2019), some of the states in the CEE11 group started.

> … on a path of inertial participation—or outright disengagement—from the 16 + 1 format.

Poland, the Czech Republic, Romania and the Baltic countries came to the forefront of this shift, while China-dependent Balkan states and Hungary were left behind...

> … to keep the 16 + 1 format afloat (Ciurtin 2019).

An important outside factor fuelling that shift was that, with the exception of the Czech Republic, all of those countries had strong reasons to give utmost priority to their security issues and alliance with the US and NATO, given their troubled neighbourhood history with Russia. Besides obviously subscribing to the new EU repositioning regarding China—recently defined by the Commission as not only *a cooperation partner* and *a negotiating partner,* but also

> … an *economic competitor* in pursuit of technological leadership and a *systemic rival* promoting alternative models of governance (European Commission 2019)—

they also paid attention to the repeated US warnings regarding a too close cooperation with China and acted accordingly. To counter this trend and inject new energy and optimism into the format, but to also signal to the world that the platform remains attractive, China hastily and without consulting the others included Greece in the 16 + 1 platform, directly as a full member, demonstrating once more that it is in the driving seat and that it does whatever it desires.

Without doubt, despite their proved current incapacity to deliver win–win results for all the involved and in spite of the significant negative feedback got from both home and abroad, BRI and the 16 + 1 will not be abandoned, first of all by China, to which their collapse would be catastrophic, but also by China's still-hopeful remaining satellites. However, to confirm their potential to spur development in CEE16, these initiatives need to recalibrate, adjust to the reality of local needs and to the European and global rules in a more responsible manner.

5 Romania-China Economic Relations Within the 16 + 1 and BRI Frames[21]

As many other countries, in the first years of the last decade, Romania was striving to return to the macroeconomic parameters it had before the outburst of the global economic crisis of 2008–2010. Against a still difficult European and global background, by starting the 16 + 1 format in 2012 and by launching a global investment strategy in 2013, China seemed to herald the opening of a host of new opportunities of cooperation for Romania with a powerful partner willing to provide financing and quicken its economic development. In 2013, when the social-democrat Victor Ponta—a declared China fan—was Romania's Prime Minister, the second 16 + 1 summit was organized in Bucharest and, on that occasion, Romania and China concluded several Memoranda of Understanding (MOUs) on major investment projects in energy—including nuclear, hydro- and thermal power stations—worth between USD 8–10 billion. But besides those documents, which were not legally binding, numerous other dream-like ideas about highways and high-speed trains crossing the country, industrial parks bustling with manufacturing and trade activities were circulated, catching everyone's imagination.

[21] This sub-chapter draws on previous research on the topic, part of it published or presented in conferences by Pencea and Bâlgăr (2019, 2020).

Eight years later none of the commitments made at the time came through, and China's impressive investments in Romanian infrastructure and economy have never been materialized. Looking back at the succession of other 16 + 1 summits that followed year by year in the other capitals of the CEE16 countries, a repetitive pattern became increasingly visible: on all those occasions, China was usually making sensational proposals to finance infrastructure and other investment projects in the host country, getting huge and free local and international media exposure, but afterwards, all those initiatives would come to nothing. Understandably, this pattern has gradually produced significant distrust, *promises fatigue* and frustration in the CEE16 region, the more so when, by the middle of the decade, huge Chinese investments started flowing towards the developed and prosperous part of the EU (2015–2016, peak years), helping enlarge, not narrow, the European development gap.

5.1 Romania-China Trade Relationship

The 16 + 1 platform and OBOR/BRI did induce some impetus into Romania-China bilateral economic relations as regards an upsurge of trade in goods, but considerably less so in terms of Chinese investments in Romania. The bilateral trade volume doubled between 2008 and 2018 (Table 3), and against the backdrop of the global economic crisis, Romania's export dynamics was higher than that of its imports (Table 4), the exported volume increasing 6 times, while the imported one, only 1.6 times. Still, considering the intervals before and after 2013, one can see that Romanian export dynamics was better before the BRI launch (with exports increasing 3.4 times before 2013 and only 1.8 times afterwards), while in the case of imports there was a switch of trend, from descending before 2013, to escalating 1.8 times afterwards. A nascent positive trend of rebalancing between the two trade flows which had been induced by the global economic crisis in the years before 2013, faded away afterwards. Consequently, if before 2013, Romanian declining imports induced a remarkable downward adjustment, by 36.2%, of Romania's trade deficit with China, after the BRI launching, Romanian imports soared again (1.6 times) and trade deficit did the same, growing 1.5 times so that, overall, the trade deficit adjustment remained insignificant and could no longer be sustained.

Ever since, Romania has kept recording yearly imports larger than exports by at least 2 billion dollars in its trade with China. In 2019, however, it registered its largest ever trade deficit with China, of EUR 3.7 billion, or about USD 4.2 billion,[22] accounting for 22% of the country's overall trade deficit. China ranked first among Romania's trade partner countries by the 2019 trade deficit level, followed by Hungary (USD 3.1 billion) and Poland (USD 3 billion) (Diaconu 2020).

Looking at the two equal intervals, before (2008–2013) and after (2013–2018) the BRI launch (Table 3), one can notice that Romania's exports increased in real terms by similar amounts in both time frames: by USD 848 million before 2013 (having

[22] NBR exchange rate on 31.12.2019: 1 EUR = 1.12 USD.

Table 3 Romania-China trade, 2008–2018 (USD million, %)

Trade RO-CN	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Export (X)	360	433	755	947	980	1208	1517	1299	1455	1824	2170
Import (M)	2890	2377	3004	3454	2707	2823	3223	3187	3448	3778	4512
X + M	3250	2810	3759	4401	3777	4031	4730	4486	4903	5602	6682
X-M	−2530	1944	−2249	−2507	−1817	−1615	−1706	−1888	−1993	−1954	−2342
X: (X + M) × 100 (%)	11.1	15.4	20.1	22.5	25.9	30.0	32.1	29.0	29.7	32.6	32.0

Source The author’s computations of data retrieved from UN Comtrade database

Table 4 Romania-China trade dynamics 2008–2018

Trade RO-CN	Changes 2008–2018	Changes 2008–2013	Changes 2013–2018
X	↑ 6 times	↑ 3.4 times	↑ 1.8 times
M	↑ 1.6 times	↓ 2.3%	↑ 1.6 times
X + M (total trade)	↑ 2.0 times	↑ 1.2 times	↑ 1.7 times
X-M (RO trade deficit)	↓ 7.4%	↓ 36.2%	↑ 1.5 times
Share of X in total trade	↑ 2.9 times	↑ 2.7 times	↑ 6.7%

Source The author's computations of data retrieved from UN Comtrade database

also absorbed the impact of the global economic crisis) and by USD 962 million after 2013. On the other hand, the imports from China declined moderately during the first interval (by USD 67 million), but increased substantially, by over USD 1.6 billion, in the second one. Summing up, BRI had no positive influence on Romanian export volume to China, but it was conducive to a considerable upsurge in Chinese exports to Romania and the swelling of Romanian trade deficit. Moreover, Romania's trade deficits with other CEE countries (e.g. Hungary, Poland) were inflated by those countries' re-exports of Chinese goods to Romania. Conclusion: BRI favoured Chinese exports and it worsened Romanian trade deficit in more relationships than the bilateral one.

On the other hand, some positive although modest structural improvements in the Romanian exports to China were also recorded: (i) exports have been diversified, covering all the major statistical groups of goods; (ii) some of the statistical groups recorded trade surpluses and (iii) group 7 (machinery and transport equipment) consolidated its leading position, coming to account for 52% of the overall Romanian exports to China in 2018, as compared to 42% in 2008. Besides the numerous trade barriers that still impede the penetration of Chinese markets by Romanian exports and the fierce competition between foreign companies that try to enter those markets, Romanian direct exports to China face a probably even more powerful limitation: the one stemming from its inclusion into the Western value chains or networks of large multinationals that export under their own brand names. Therefore, a significant portion of Romanian production reaches China, as well as other destinations, only indirectly and unknowably, either in the form of components, design and software incorporated in foreign final products, or as final products per se, but re-exported from other countries, or even from Romania, under foreign brand names.

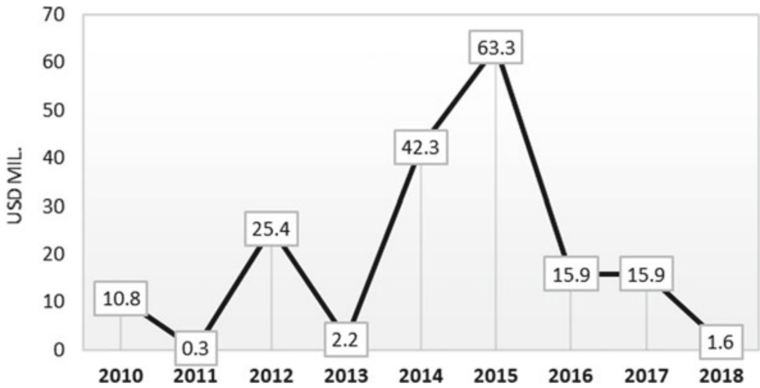

Fig. 1 Romania's annual inflow of Chinese ODI, 2010–2018 (USD, million). *Source* Data retrieved from Statistical Bulletin of China's Outward Foreign Direct Investments (MOFCOM 2020)

5.2 Chinese Investments in Romania

As previously demonstrated, although the Belt and Road strategy and the 16 + 1 platform were supposed to promote China's investments in the CEE16 countries, Chinese ODI have actually remained minor in the region and largely directed at only a few receiving economies, Romania among them, especially in the earlier years. However, the amount of these investments was quite low and of modest significance for the Romanian economy, both in terms of the annual inflows received from China (Fig. 1), and as cumulated Chinese FDI stocks (Fig. 3).

Over the current decade, the inflow of Chinese investments into the entire group of the CEE16 economies has most of the time shuttled at low levels, between 100 and 200 million dollars per year, except for the beginning and the end of the interval, when their levels were considerably higher, especially in 2018, when they soared above USD 600 million. Romania's share in the CEE16 countries' total Chinese ODI inflow has zigzagged between less than 1% and a little above 36% in 2015, when it hit a record high. But afterwards, while rebounding in the rest of the CEE16 as a group, the Chinese investment flows to Romania went into free fall, so that in 2018 they came to account for only 0.3% of the whole (Fig. 2). The OBOR launching had found the Chinese ODI inflows into the CEE16 group at a minimum and particularly low in Romania where they cumulated only USD 2.2 million, accounting for less than 2% of the total. In the next two years, it seemed like the 16 + 1 and BRI had stimulated an upswing, but the progress was induced by only one project (building of a new neighbourhood in the city of Craiova) that ultimately failed, and therefore, the upswing was short-lived.

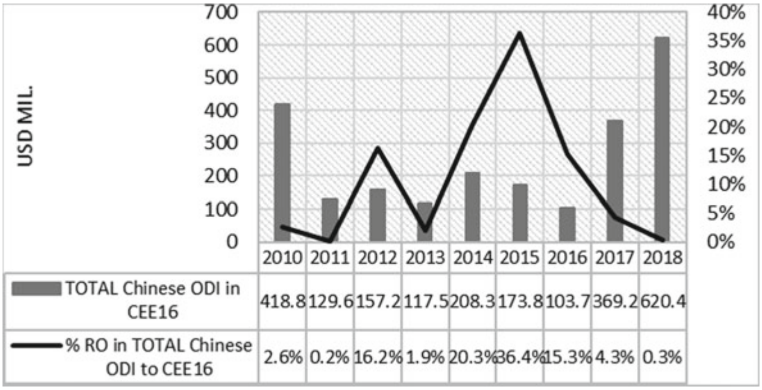

Fig. 2 Chinese ODI flows in CEE16 and Romania's share of the total (USD million, %). *Source* Data retrieved from Statistical Bulletin of China's Outward Foreign Direct Investments (MOFCOM 2020)

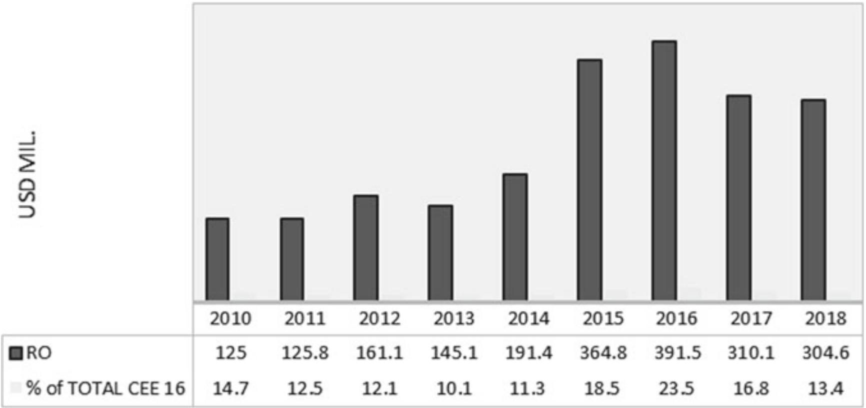

Fig. 3 Chinese ODI stocks in Romania and their share in overall CEE16 Chinese ODI stocks (USD, million, %). *Source* Data retrieved from Statistical Bulletin of China's Outward Foreign Direct Investments (MOFCOM 2020)

That recent Craiova project failure (2014–2017) continued a quite long listing of abandoned or failed project negotiations in the field of energy infrastructure,[23] transport infrastructure,[24] industrial parks[25]and even health and leisure infrastructure.[26]

[23] Such as: Refurbishing and extending Doicesti, Mintia-Deva and Rovinari thermal power plants; building the Tarnita-Lapusesti pumped-storage hydro-power plant; extending the Cernavoda nuclear plant etc.

[24] Such as: Braila bridge over the Danube; highways, various routes; high-speed railways such as Costanta-Bucharest-Timișoara or, more recently, cross-border ones such as Sofia-Bucharest-Timișoara, with adjacent lines to Budapest and Belgrade; upgrading and extending ports etc.

[25] Such as: the industrial park along the Danube-Black Sea Canal.

[26] Such as: Govora healthcare resort etc.

Each of those projects had its own history of setbacks and stumbling blocks, deriving from the negotiators' excessive claims and inflexibilities, attempts of improper technology transfer, political instability in Romania and shifts in the regional or global context. However, that is not a Romania-specific phenomenon: in the eight years of China-CEE16 cooperation within the 16 + 1, out of around 40 joint initiated projects only four were completed. Not a single one in Romania (Brânză 2020a).

Due to the low Chinese capital inflows and to some disinvestments, the Chinese FDI stocks in Romania also recorded very modest levels, which accounted for declining shares of the total Chinese investment stocks in the CEE16, from a maximum of 23.5% reached in 2016, to just 13.4% in 2018 (Fig. 3). China's contribution kept declining to considerably less than 1% in the overall foreign investment stock volumes in Romania and in the recent five years the country no longer ranked among the first 30 top investors, according to the National Bank of Romania (NBR).

Currently, Romania hosts over 12,000 Chinese small and medium-sized enterprises (SMEs), mainly family-owned firms of reduced financial means and investment power. They are predominant in terms of numbers, but their impact in terms of invested value is of almost no significance at macroeconomic level, as they currently cumulate less than USD 500 million. However, over time, from their ranks stemmed a few companies that developed and thrived and some of them even became important exporters to the EU countries (e.g. Eurosport DHS, manufacturer of bicycles and scooters).

Besides SMEs, a few large Chinese companies are also present in Romania, having been established here in one of two ways: either directly, as greenfield investors, or indirectly, by getting assets in Romania as a result of their international take-overs of companies that had been Romanian asset-owners. In the first group, ZTE and Huawei, the multinationals in IC&T that entered the Romanian market in 2002 and 2003, respectively, are the best examples, plus, probably, Haier—the second largest global manufacturer of household equipment, in case it comes through with an investment, it has just announced. The most successful bigger companies that have developed locally from scratch, may also be included in this group: Eurosport DHS (bicycles and scooters), Yunchen Plate Making (machinery and equipment), Tobacco International Europe Company (cigarettes), Rich Bike Impex (bicycles).

In the second group, some of the most important Chinese companies with assets in Romania are: WH Group, which took over Smithfield Foods (US) and came to own 50 pig farms, two fodder factories, a slaughterhouse and a distribution company in Romania; ChemChina, which took over the Italian tyre manufacturer Pirelli and now owns two factories in Romania—a tyre factory and an electrical engine plant; COFCO, which took over the Dutch company Nidera and came to own the largest cereal terminal on the Black Sea shore, in the port of Constanța; Ningbo Joyson Electronic Corp., which acquired the German companies Quinn and Preh, the American company Key Safety Systems (KSS) and the Japanese company Takata and has become consequently the owner, in Romania, of one factory from each of the two German companies, three factories from KSS (US) and three from Takata (JP) (Pencea and Bâlgăr 2020).

Romania had a particularly good relation with China before 1989 when it was run by Nicolae Ceaușescu and both countries were part of the socialist block and opponents to Russia, but afterwards, this relationship was either distant (in the first decade following the 1989 revolution, when both countries were defining their path forward), or vacillating between times of more intense interactions and cooperation initiatives, when the leftist governments were in power, and intervals of standstill and restrain, when the rightist parties were leading Romania. All in all, Romania has maintained a polite but cautious relationship with China and it generally adopted a reserved stance, not really aligning itself with the CEE16 more welcoming trend, even before the advent of the US-China trade conflict and the more so after its outburst (Ciurtin 2019). That stance is reflected in the low level of the bilateral economic relations outlined herein and is reflective of the importance and priority Romania is firmly giving to its strategic partnership with the US and to its NATO and EU memberships.

6 Conclusions

There is a huge need for infrastructure in the world and for a boost in economic development, and China is the only country that did come up with a global strategy and also with financial resources, institutions, mechanisms, building capabilities and capacity, as well as a long and outstanding track record of achievements in building and infrastructure-led development.

Such a strategy is definitely needed and able to render wonderful results for mankind, provided that it is designed and implemented with an honest view to the general good and to every country's benefit. To that end, it should be a largely multilateral enterprise, both in terms of its design and implementation. But, the Belt and Road strategy is Chinese. Probably too Chinese, as it is trying to solve all of China's domestic and global challenges and dreams of glory, no matter what happens to the others. It is not only a Chinese-centric undertaking, embedding China's national interests—which may be acceptable to a certain extent—but, in practice, it goes too far with promoting these interests almost exclusively, often harming some of the most vulnerable actors on the global stage, who understandably come to believe that the Chinese *win–win* mantra—which is the most salient promise of BRI—means *China wins twice*.

At the same time, the strategy is pervasive, extending to every field, even to very sensitive realms of geoeconomic, geopolitical and geostrategic nature, seeking to tailor them and the entire global setup and its workings according to China's national interests, goals and autocratic model. Accordingly, the democratic multilateral system where all the countries have a voice in deciding on global matters would be replaced with an authoritative one in which only the dominant power, China, decides—just as it has always done in the small-scale test named 16 + 1 that helps implement the BRI. The dramatic change that BRI might underpin was obviously not discussed, negotiated and agreed on with the other countries, although it would impact all of them. It was simply launched as an investment initiative (who does not want investments?), marketed as a win–win project, under an attractive brand name (Silk Road) and pushed forward through the most vulnerable access points of the world economy, the low-income countries.

The growing international backlash, some of the beneficiary countries' resentful reactions and the domestic discontent that the BRI has triggered, as well as the financial distress that China itself is facing, partially exactly due to its risky BRI overseas investments, have all slowed down the advance of the strategy's implementation and expansion. But although not so loudly promoted as it used to be, the strategy will not be abandoned. It will probably be adjusted to be more in keeping with global and local rules and needs, to observe economic rationality and market principles. Also, from now on, it will probably be limited to only a reduced number of very attentively selected, smaller projects, involving less the Chinese state as an investor and considerably more the Chinese private sector and possibly also some foreign contractors. Just like BRI, the 16 + 1 will not be abandoned either. It will also have to change so that the participant countries become more involved in designing, deciding, financing and carrying out regional projects, ideally with both EU and Chinese engagement.

As BRI and the 16 + 1 platform will not vanish, they should become more useful to the countries that they are addressed to and to the world as a whole. To that end, the international community should keep an eye on their plans and actions and keep them under pressure to get more in line with their own rhetoric and declared purposes. BRI may become a true opportunity for enhanced foreign investments, infrastructure development and economic growth, as long as all the actors involved, starting with China, accept to do what they say (act honestly) and say what they do (are transparent) and provided that the strategy is re-designed and managed as a multilateral endeavour that observes international rules and norms, the requirements of economic rationality and efficiency and the imperatives of social and environmental sustainability, incorporating the ideas stemming from all the participants and addressing equitably their needs.

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Towards a Win–Win EU-China Bilateral Investment Treaty: Challenges and Prospects

Chunping Bush and Ming Du

Abstract Bilateral investment between China and the EU has accelerated rapidly, with both sides seeking a mutually beneficial yet sustainable relationship. Limitations remain however, given that the current legal framework governing EU-China investments are restricted in terms of its regulatory scope. Taken together the fragmented patchwork of investment agreements between the individual EU Member States and China, most of which were concluded back in the 1980s, is in need of a comprehensive review. As such the developments that were facilitated during the EU-China CAI and the US-China BIT will be addressed with consideration of the conflicting perspectives. Given that Europe remains the most favourable destination for Chinese investors, a comprehensive agenda on existing and future investments and access to local markets is critical towards maintaining a progressive economic environment.

Keywords Bilateral investment treaty · Mutual relationships · Investment agreements · EU-China CAI · US-China BIT

1 Introduction

Despite the rapid growth of the bilateral investment flow between China and the EU, the current legal framework governing EU-China investments remains limited in regulatory scope and is fragmented by a patchwork of investment agreements between the individual EU Member States and China, most of which were concluded back in the 1980s.[1] Both the EU and China reached an agreement to launch negotiations for an EU-China Comprehensive Agreement on Investment (CAI) at the 15th EU-China

[1] Regulation (EU) No 1219/2012.

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Y.-C. Kim (ed.), *China and the Belt and Road Initiative*, Understanding China,
https://doi.org/10.1007/978-3-030-86122-3_7

Summit in February 2012 in order to provide new market access opportunities for the EU and Chinese investors and to address key structural challenges, which have long plagued the establishment of a more mutually beneficial foreign investment environment. The first round of talks took place in January 2014. After seven years of talks both parties confirmed that talks are currently at a critical stage.[2]

The EU-China CAI is touted as being of a high standard, balanced and a potentially significant international investment treaty as the US-China BIT.[3] It aims to provide a comprehensive investment agreement which encompasses the elements raised by both parties, particularly improved investment protection and market access.[4] It promotes foreign investments in both directions to meet the need for the rapid growth of investment activities between the EU and China. From the EU's perspective, the EU-China CAI contributes to the goal of building a Europe with smart, sustainable and inclusive growth,[5] as China is the second biggest economy in the world and the second biggest trading partner with the EU.[6] From China's perspective, concluding an ambitious EU-China CAI constitutes a strategic move for its global economic development in modern times as Europe remains the favourite destination for Chinese investors.[7] A comprehensive BIT would help improve legal protection and certainty for Chinese investors in Europe.[8] Moreover, it is expected to stimulate the flow of outward foreign direct investments (FDIs) from the EU countries to China, particularly at a time when China's economy started to show signs of slowing down and the amount of European FDIs in China stagnated before 2015 and further declined in 2016 and 2017.[9]

This chapter seeks to examine critically the long-drawn EU-China BIT negotiations with a focus on identifying major sticking points that pose threats to an even stronger EU-China investment relationship and assessing as to what extent these issues may be successfully addressed in the CAI. Part II examines the current legal framework governing the EU-China investment relationships and argues that the existing BIT regime between China and the EU Member States are not fit for purpose in the light of a robust EU-China bilateral investment relationship. Instead a comprehensive modern EU-China BIT will serve the best interests of both the EU and China. Part III examines the key issues that so far have impeded a successful conclusion of the EU-China BIT negotiations. These issues include the lack of a level playing field between Chinese and EU investors, limited access to the Chinese market, a lack of legal certainty and transparency and lastly the concern over national security issues. Part IV examines China's recent foreign investment law reforms and

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[2] Brunsden and Fleming (2020); EC (2019) Brussels, 1 March 2019 Trade, B2/.

[3] Tao and Shen (2018).

[4] EC (2013b).

[5] EC (2010).

[6] EC (2013a) (hereafter 'Impact assessment report').

[7] Hanemann, Rhodium Group and Huotari (2018).

[8] EC, 'Impact assessment report, supra n 6, 20.

[9] Zhang (2016); Hanemann et al., supra n 7, 9.

assesses how these reforms contribute to bridging the differences between these two parties. Part V concludes the chapter.

2 The Case for a Comprehensive EU-China CAI

The establishment of a unified CAI to replace the patchwork of existing BITs is a favoured option for both the EU and China. The main objectives of the new CAI consist of improving legal certainty and investors' protection for both sides and reducing investment barriers.[10] On the EU side, the European Commission highlighted the goal of abolishing the existing Member State BITs and establishing an EU-China CAI, particularly to promote the inner consolidation within the EU.[11] It emphasised the need to strengthen the EU's competence in FDIs, to achieve better access to the key third country markets, to protect investors and to enhance the EU's international competitiveness.[12] On China's side China has always been at the forefront of encouraging foreign investment since its opening-up policy in 1978. Its most recent Five-Year Plan (2016–2020) and the 19th Party Congress in 2017 reiterated its commitment to investment liberalisation, calling for further promotion of economic reform and opening-up, the reduction of the limitations on foreign investment in China and a unification of its foreign investment laws.[13]

The investment relationship between China and the EU is strategic for the global business community. China became an attractive country for FDIs because many production facilities moved to China, but at the same time the EU-China investment remained low (see Fig. 1).[14] China's FDI stocks increased by an annual average rate of 23% between 2004 and 2010.[15] In 2014 China hosted the highest amount of FDIs at $129 billion.[16] China is the second largest trading partner to the EU, the EU being the largest trading partner to China in 2018.[17] However, the total of the EU FDI positions in China (€168 bn at the end of 2015) was much higher than that of China in the EU (€35 bn).[18] The total FDI investments of China and the EU peaked between 2014 and 2016 before they declined significantly in 2018 (see Figs. 2 and 3). The relatively low EU-China FDI flows compared to the rapid economic growth in China suggests that the EU-China investment is far from reaching its full potential.

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[10] EC, 'Impact assessment report', supra n 6, 20.

[11] European Economic and Social Committee (2011), S 1.4.

[12] Ibid, S 1.1.

[13] Gao and Jiang (2014) Policies; Central Committee of the Communist Party of China, 'The 13th Five-Year Plan for Economic and Social Development of the People's Republic of China 2016–2020' (2016) Part 3.

[14] European Economic and Social Committee, supra n 11, S 3.3.

[15] EC (2012).

[16] Ecorys & TNO (2017).

[17] European Council (2018). Sources: Eurostat, World Bank.

[18] Eurostat (2017).

Fig. 1 FDI stocks (outward/inward, % of GDP, 2018)[19]

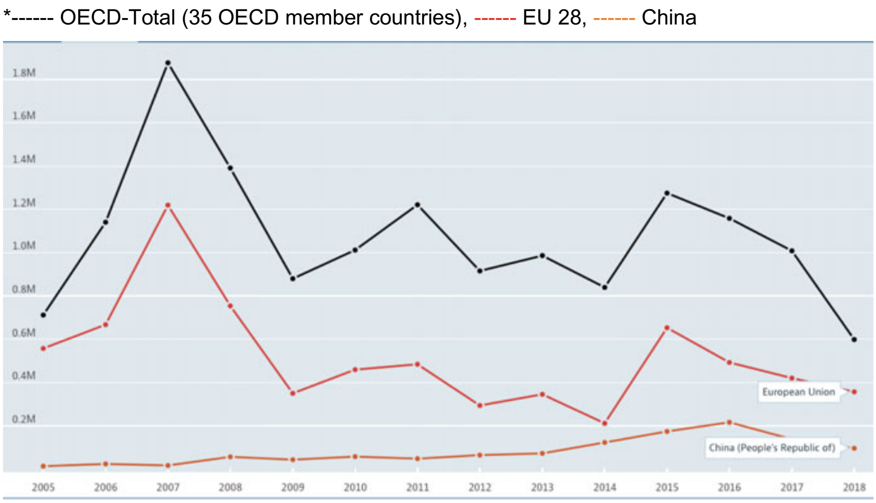

Fig. 2 FDI flows (outward, million US dollars, 2005–2018)[20]. * **------**OECD-total (35 OECD member countries), **------**EU 28, **------**China

The FDIs in both directions anticipatively headed for a rapid increase in the coming years.[21] Hence, the EU-China BIT is strategic in order to achieve an improved foreign investment environment, which can match up to China's economic growth.

[19] OECD Data (2018).

[20] OECD Data (2018).

[21] Tao & Shen, supra n 3, 1160.

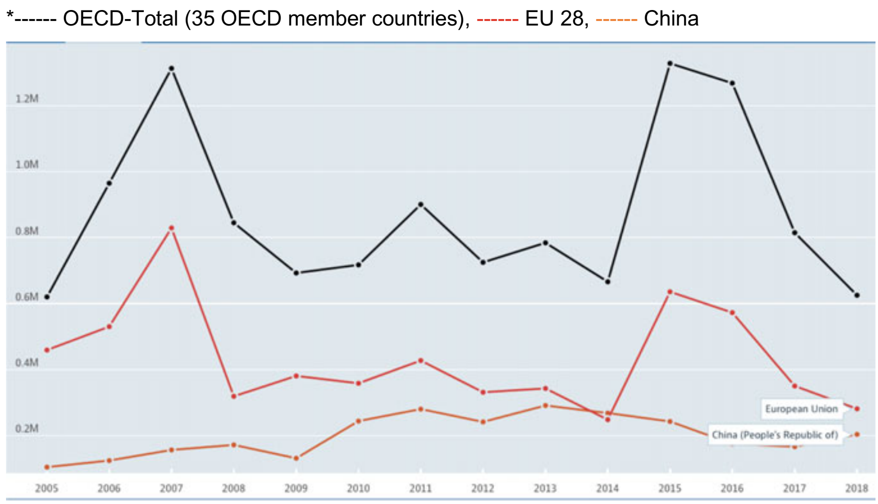

Fig. 3 FDI flows (inward, million US dollars, 2005–2018)[22]. * **------**OECD-total (35 OECD member countries), **------**EU 28, **------**China

It was submitted that the EU-China CAI promised to bring enormous benefits for both the EU and China. First, a new BIT offers better protection for investors and encourages investment flows between the two regions.[23] The existing new-generation BITs (15 out of 26 BITs) signed after 1998 improved investors' protection to a certain degree compared to the BITs signed before 1998. The new-generation post-1998 BITs allow foreign investors to rely on both the national treatment provisions and the investor-to-state dispute settlement (ISDS) for substantive protections. For example, prior to the late 1990s, China did not favour the recourse of ISDS as a mechanism for investment disputes for reasons such as China's suspicions on international law and international institutions, ideological differences and China's overt emphases on 'national sovereignty'.[24] By contrast China embraced a positive approach and allowed investors to resort to international arbitrations from 1995.[25] China increased its international presence for using the ICSID arbitration to resolve claims both for cases brought by Chinese investors and cases against China since 2010.[26] Moreover, early Chinese BITs limit international arbitration only to disputes involving the quantum of compensation payable in the event of an expropriation. Some arbitral tribunals took a highly restrictive interpretation with regard to

[22] Ibid.

[23] Copenhagen Economics, supra n 15, 36.

[24] Tao and Shen, supra n 3, 1164.

[25] Ibid; Zhang, supra n 9, 1.

[26] Zhang, supra n 9, 1.

disputes which involved compensation for expropriation when awarding jurisdiction and compensation.[27]

Despite some improvements of the new-generation BITs, shortcomings still exist. For example, some existing BITs imposed limitations on foreign investment enterprises (FIEs), such as the need to exhaust local remedies before the pursuit of international arbitration, only allowing such a recourse over disputes of compensation resulting from expropriation and nationalisation or only when there is mutual consent.[28] The most modern BITs do not require the exhaustion of local remedies. FIEs can bring a case either to the domestic court system or to the international arbitration after the stipulated waiting time, usually being six months.[29] Where there is an absence of a clear agreement disputes concerning foreign investments may face the local or national adjudication system, which was criticised for being weak and inadequate to protect foreign investors.[30] Additionally, the administrative review can be more problematic and fails to provide a level playing field for European investors. The new-generation BITs variably require investors to complete a local administrative review which lasts at least three month or to withdraw their case prior to the delivery of a judgement at a national court before resorting to international arbitration.[31] Hence the new EU-China BIT offers an opportunity to address this issue. A new single BIT should bring all EU Member States to the same level of protection with added certainties and clarity on questions such as whether a local judication or administrative review is mandatory or not and what the conditions are if a FIE were to resort to international arbitration.

Secondly, a consolidation of the current 26 BITs with a focus only on investment protection is unlikely to have a significant positive impact on FDI flows according to the Copenhagen Economics study in 2012. This study provided an empirical assessment of the correlation between the current BITs and the FDI flows at a global level and the importance of the EU-China BIT. It concluded that the current 26 BITs

[27] Copenhagen Economics, supra n 15, 44; Pathirana (2017); *Señor Tza Yap Shum v. The Republic of Peru,* ICSID Case No. ARB/07/6, 5-9; *China Heilongjiang International Economic & Technical Cooperative Corp., Beijing Shougang Mining Investment Company Ltd., and Qinhuangdaoshi Qinlong International Industrial Co. Ltd. v. Mongolia,* UNCITRAL, PCA Case No. 2010–20.

[28] Copenhagen Economics, supra n 15, 38; Pathirana, supra n 38; Greece-China BIT, Article 10(2), 'Any other dispute between an investor and a Contracting Party may be submitted to an international arbitration tribunal, only by mutual consent'.

[29] Schreuer (2001); Tao & Shen, supra n 3, 1166.

[30] Potter (1999).

[31] Czech Republic-China BIT, Article 9(3), 'China will require the investor concerned to go through the domestic administrative review procedures specified by the laws and regulation of that contracting party before the submission of the dispute to the international arbitration. Such a procedure shall not exceed a period of three months'; Latvia-China BIT 2004, Article 9(2), The investors may lose his right to resort to international arbitration if he fails to withdraw the case before national court's delivery of judgment; Finland-China BIT 2004, Article 9(3), The investor must withdraw his case before the local court's judgment had been delivered on the subject matter in order to resort to international arbitration; Portugal-China BIT 2005, Ad Article 9, The investors has to go through the local administrative review process before an international arbitration and only resort to international arbitration after the three-month period elapsed.

had only a negligible impact on FDI flows and the investors had limited familiarity with the provisions of the EU-China BITs.[32] In contrast the EU's Sustainability Impact Assessment (SIA) in 2017 provided an update and comprehensive evaluation of the new CAI currently under negotiation, which covers a much wider scope including market access, investor protection, a regulatory framework for investment, transparency, licencing and authorisation procedures, sustainable development and dispute settlements.[33] The SIA concluded that a BIT with better market access and investor protection in general has a greater impact on the economy, social aspects, human rights and environmental standards.[34] The positive economic impact was derived from the reduced investment cost and the improved economic growth and employment from market access spill-overs.[35] For the social impact the CAI is expected to increase international exposure, to improve transparency on labour and sustainability in the host countries and to improve governance and social dialogues.[36]

3 Key Impediments for a Successful EU-China BIT

While the successful conclusion of the EU-China CAI can bring benefits to both parties, the EU-China CAI negotiations must deal with the challenges existing in the current EU-China investments, such as the lack of a level playing field, limited market access, a lack of transparency and certainty, threats of opportune takeover and the national security impediment.[37]

3.1 Lack of a Level Playing Field

The lack of a level playing field between China and the EU has long been a recognised problem for China and EU investments. The restrictiveness for FDIs in the EU remained persistently low from 1997 to the present day at an average of 0.035.[38] In contrast, China is the most restricted country being the least open regime for foreign investments in every single sector except the real estate (see Fig. 4).[39] Restrictions existed not only at the market entry level but also at post-establishment level. For the latter, China has different rules and regulations for the FIEs and a wide range of administrative practices which restrain foreign investors at post-establishment

[32] Copenhagen Economics, supra n 15, 45.

[33] ECORYs & TNO, supra n 16, 12.

[34] Ibid, 10.

[35] Ibid, 12.

[36] Ibid, 13.

[37] EC (2018a, b).

[38] OECD.stat (2018).

[39] Hanemann et al., supra n 7, 11–13.

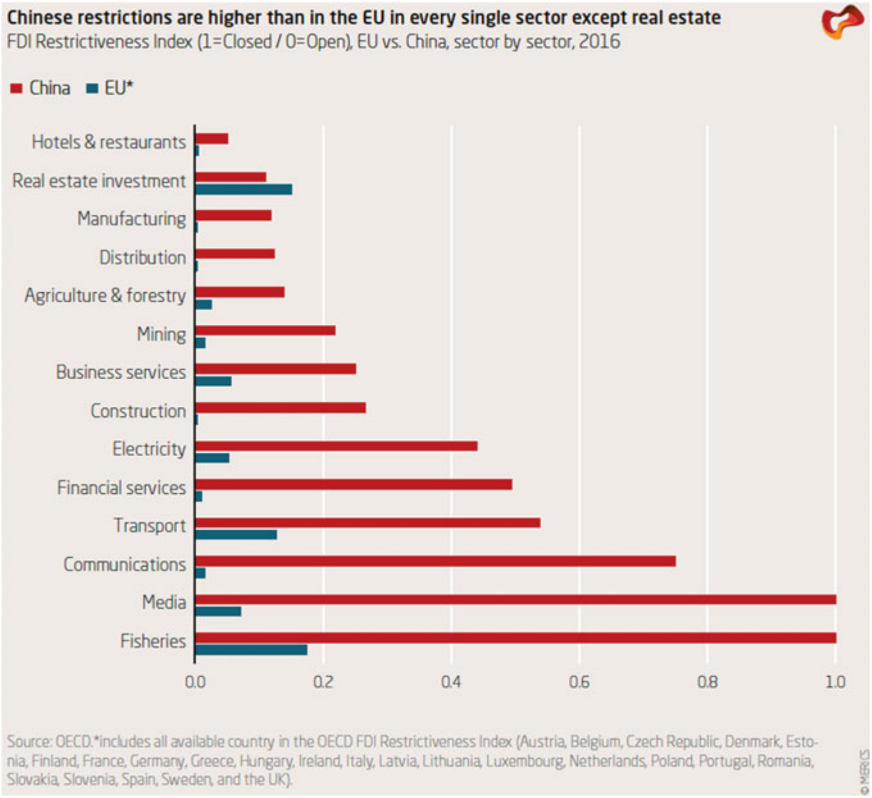

Fig. 4 FDI restrictiveness index 2016, China versus EU[40]

stage.[41] Noteworthily, China's restrictiveness gradually reduced from 0.613 in 2008 to 0.251 in 2018.[42] Nevertheless, the imbalance between these two regimes is still significant, resulting in an unlevelled playing field for EU-China investors.

This condition exacerbated in recent years, which resulted in more than half of European companies complaining about unfair treatment and the non-reciprocity for EU foreign investments.[43] Evidence showed that the Chinese FDI flowing to the EU, which soared three times higher than that of the EU to China in 2017 under various restrictive practices against the EU foreign investment in China, was driven exclusively by the M&A activities.[44] Three quarters of these investments could not have happened in the other direction because of the prohibition and restriction under Chinese law or because they would not be approved by the Chinese State between

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[40] Hanemann et al., supra n 7, 13.

[41] Ibid, 13.

[42] OECD.stat, 'OECD FDI Regulatory Restrictiveness Index,' supra n 39.

[43] Hanemann et al., supra n 7, 16.

[44] Ibid, 13 and 20.

2000 and 2017.[45] One cause for this sharp rise should be attributed to the Chinese government's promotion of outward investment overseas in recent years.[46] This imbalance of FDI flows leads to the non-reciprocity complaint from EU investors. In contrast, Chinese investors already recognised the advantages of an open EU investment market so as to emphasise the importance of the EU maintaining this openness.[47] The existing bilateral and multilateral frameworks did not successfully address the uneven regulatory rules for investors; this led to a compromise of the competitiveness of European investors.[48]

3.2 Limited Market Access

Previously, the Chinese government placed strict control over foreign investment projects through the processes of approval, supervision, targeting economic sectors for foreign investments and finance and tax supervision.[49] The restrictive screening policy for foreign investments constitutes an important reason for the limited market access to the China market in general. The controls over FDIs included limitations on size, duration and scope of business.[50] Prior to the new BIT negotiation the National Development and Reform Commission (NDRC) and the Ministry of Commerce (MOFCOM) promulgated several versions of the Catalogue of Industries Guiding Foreign Investment (the Catalogue) since 1995 as the main guidelines for reviewing, evaluating and approving foreign investment projects and enterprises.[51] The guidelines have four categories for foreign investments, i.e. the prohibited, restricted, encouraged and permitted.[52] All foreign investments were subject to administrative approvals before entry into the market.[53] Among these categories, the prohibited category is not open to foreign investments, while the restricted category only permits foreign investments if they can satisfy certain requirements such as the requirements for a joint venture or equity limitation. The earlier version of the foreign investment law was said to be fragmented and restrictive, providing wide latitude for administrative discretion in deciding whether to approve foreign investment.[54]

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45 Ibid.

46 Davies (2012).

47 Ibid.

48 EC, 'Impact Assessment Report', supra n 6, 11.

49 Potter, supra n 31, 680.

50 Ibid.

51 Gao & Jiang, supra n 13, Guiding Catalogues; Catalogue for the Guidelines of Foreign Investment 《外商投资产业指导目录》1995.

52 The Interim Provisions on Guiding Foreign Investment Direction (China) 1995, Article 4.

53 Lian (2019).

54 Zhou et al. (2020); Qin (2000).

China reduced the restrictions over the years with many sectors becoming 'encouraged' for FDI participations and removed some equity ratio limitations.[55] Compared to the 2007 Catalogues, the 2012 version reduced the restricted and prohibited categories by eight items. Nonetheless, the Copenhagen Economics 2012 survey still identified 214 investment barriers.[56] The top five were the licencing requirements/procedures, foreign ownership limitations, regulatory approval procedures, prohibition to invest, limited scope of business and joint venture requirements.[57] Under the joint venture ownership, the foreign partners cannot be the controlling party.[58] These barriers can increase the entry and operation costs, limit companies' activities, reduce investments and increase investment risks for EU companies.[59] Additionally, compared to the state-owned enterprises (SOEs) foreign companies are the disadvantaged group as the SOEs and private Chinese enterprises can access subsidies, loans, or enjoy an unfair advantage for public procurements or bidding procedures.[60] Elimination of these barriers would benefit both Chinese and foreign country economies.

On the point of the SOEs' privileged access to low-interest rate bank loans, it was unclear as to whether Chinese SOEs received preferential interest rates from domestic banks compared to the US firms because the US firms' deferral funds rates are close to zero.[61] The foreign-invested enterprises (FIEs) in China enjoyed various 'super-national treatments' before 2008, such as lower profit tax rates and exemptions from duties on imports of machinery and equipment.[62] The Chinese government eliminated these 'super-national treatments' in its equal treatment for the enterprises' reforms.[63] By 2010 foreign investments operated under the unified tax system like other domestic enterprises.[64]

Reducing market access and streamline legal rules are objectives desired by both parties. The market access barriers still exist for foreign investments under the promotion of the China State monopolies and national champions in seven strategic industries and five 'pillar industries' in which the SOEs have a significant role to play.[65] Foreign investments would have to face discriminatory treatment or discouragement

55 Gao & Jiang, supra n 13, Guiding catalogues.

56 Copenhagen Economics, supra n 15, 70.

57 EC, 'Impact Assessment Report', supra n 6, 12.

58 Gang and Hope (2013).

59 Copenhagen Economics, supra n 15, 71.

60 Ibid; BDI (2019).

61 Gang and Hope, supra n 59, 12.

62 Ibid; Gao and Jiang, supra n 13, Super-national Treatment Phases Out.

63 Gang and Hope, supra n 59, 12.

64 Gao and Jiang, supra n 13, Super-national Treatment Phases Out.

65 Gang and Hope, supra n 59, 13.

from participation in these ear-marked industries.[66] Foreign investments face challenges from local protectionism, such as government procurements, market regulations and subsidies for indigenous enterprises.[67] In January 2019 the problem of unlevelled competition and a high degree of asymmetry in market access between China and the EU existed in areas such as high industrial tariffs, the protection of the SOEs' market shares, unequal access to licences, financing, subsidies and legal remedies, forced technology transfer and the lack of intellectual property rights.[68] Various market access restrictions pose a challenge for EU foreign investments in China while the lack of a level playing field inevitably created a high barrier to entry and lowered competitiveness for EU companies. The complaint of a limited market access mainly came from EU investors. Likewise, market access barriers also exist for Chinese investors when entering into the EU market. The barriers include unequal licencing, authorisation or application standards, the lack of legal transparency, a high administrative burden[69] and the lack of levelled investment protection.[70]

3.3 Lack of Legal Certainty and Transparency

China's current legal system poses a challenge to foreign investors for reasons such as a lack of legal certainty, transparency and sufficient protection.[71] The modern Chinese legal system has a relatively short history compared to EU countries. China's legal reform started in 1979 under the Chinese Communist Party (CCP) leadership. The reform was in general swift and covered a wide spectrum of legal sectors. Nonetheless, its development was criticised for being the mechanism of maintaining the Party's monopoly on political power and promoting economic development.[72] Hence, the degree of legal certainty, transparency and investors' protection would largely be swayed according to the Party's leadership directions and priorities. One aspect of its legal reform focused on strengthening the judicial institutions' power for civil dispute resolution. Notwithstanding, the Chinese court system is still weak and unable to compel production of evidence and to enforce awards.[73] Corruption, poor training and abuse of power and political connections continue to jeopardise the effectiveness of the Chinese court system.[74] This could lead to a fear of insufficient protection for foreign investors.

66 Ibid, 13.

67 Ibid, 14.

68 BDI, supra n 61, 3.

69 EC, 'Impact Assessment Report', supra n 6, 19.

70 Copenhagen Economics, supra n 15, 10.

71 EC, 'Impact Assessment Report', supra n 6, 14.

72 Potter, supra n 31, 673.

73 Ibid.

74 Ibid.

The existing BITs improved investors' protection in many ways. They contain standard provisions, such as the principle and equitable treatment, full protection and security, non-discrimination and the investor-to-state dispute settlement.[75] Even with the enhanced protection, the current provisions contain discrepancies. For example, the BIT between China and Cyprus is the only BIT which contains an unconditional national treatment commitment.[76] The unlimited 'Most Favoured Nation' treatment is only guaranteed in eight agreements.[77] Apart from these discrepancies, they did not contain any provisions for the prevention of the lowering of standards, the issues of corporate social responsibility and questions over SOEs, subsidies and forced technology transfers.[78] For the interests of Chinese investors, establishing a set of unified agreements should be an optimal approach for simplifying procedures, reducing costs and enhancing protections. Therefore, a new comprehensive BIT should provide an up-to-date legal framework and cover these aspects.

3.4 Threat of Opportune Takeover and National Security Concerns

First, the western world accused China of using strategic mergers and acquisitions in order to acquire advanced technologies and know-how in recent years. The EU's impact assessment in 2012 suggested this concern did not materialise because the FDI flows and stocks remained marginal even when the SOEs or companies were under the indirect control of the Chinese government.[79] Notwithstanding, the threat of 'takeover' by Chinese investments in the EU sparked new alerts in recent times with the fear of compromising national security issues. The SOEs took 73% of the Chinese investment projects in the EU from 2006 to 2011.[80] China was criticised for supporting its large central SOEs or even private companies under the 'go global' strategy to purchase natural resources, to develop overseas markets and to acquire the much-needed technologies.[81] China targeted ten key industries and increased the State's support in technological know-how companies and overseas acquisitions by ways of tax reduction, low-cost loans and direct project-based financing in pursuit of the 'Made in China 2025' policy.[82] A detailed analysis on the 'technology transfer' issue is set out in Part IV.

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[75] Ibid.
[76] Ibid.
[77] Ibid.
[78] Ibid, 16.
[79] Ibid, 15.
[80] Ibid, 15.
[81] Gang and Hope, supra n 59, 15; ECORYs & TNO, supra n 16, 12.
[82] BDI, supra n 61, 7.

Secondly, the EU-China inflow FDIs highlighted a national security issue.[83] The criticism of national security threats from China deepened in recent years, which led to a call for imposing stringent national security screening policies in the EU. The UK government alerted the challenges when facing continued and broad-ranging hostile activities through acquisitions or imposing influence over UK entities or assets by Chinese SOEs.[84] These incidents included the Hinkley Point Nuclear Power Station purchased by the State-controlled China General Nuclear and the takeover of Imagination Technologies of a UN chipmaker.[85] Likewise, the German government identified the threat of advanced technology and critical infrastructure being taken over by the Chinese government leading to national security being compromised.[86] At the EU level, safeguarding over advanced technology, intellectual property and critical infrastructure is a growing sentiment, resulting in more stringent rules being imposed on the FDI inward investments by the EU Member States as well as a new EU level FDI regulation relating to a national security review that intends to supplement Member States' national security systems.[87] Although any BITs would need to address the national security issue, both parties should take a consensus approach to secure an open investment environment and to avoid unnecessary setbacks.

4 The 2019 New Chinese Foreign Investment Law: A Catalyst for EU-China BIT

4.1 The Old Foreign Investment Law Regime and Its Critics

Prior to Deng's open-door economic reform in 1979 China had a relatively narrow window of interaction with the rest of the world in many aspects, which were not only limited to the international commerce and investment sectors.[88] China began to gradually establish a foreign investment legal system which promotes foreign investments and protects stakeholders' legal rights and interests after Deng's policy reform. This legal reform aimed to acquire foreign capital, management skills, advanced technologies and business 'know-how', all of which were desperately needed for the development of China's new socialist economy.[89] The basic legal framework, namely the 'Three Investment Laws', consists of the Laws of The People's Republic

[83] EC, 'Impact Assessment Report', supra n 6, 19.

[84] Pickard et al. (2018).

[85] Ibid.

[86] Chazan (2018).

[87] Regulation (EU) (2019).

[88] Zhou, Jiang and Kong, supra n 55; Chen (1995).

[89] Zheng (1987) 19 N.Y.U. J. Int'l L. & Pol. 269, 270; Zhou (2000).

of China on Chinese–Foreign Equity Joint Ventures, on Chinese-Foreign Contractual Joint Ventures and on Foreign-Capital Enterprises.[90] This framework became the high-principled foundation for three types of enterprises operating in China, i.e. the Equity Joint Ventures (EJVs), the Contractual Joint Ventures (CJVs) and the Wholly Foreign-Owned Enterprises (WFOEs). The State Council gradually promulgated other correspondent Regulations to implement the 'Three Investment Laws,' such as the 'Three Regulations.'[91]

This legal framework gradually standardised the Chinese foreign investment law[92] while at the same time, it continually evolved in order to match up with the rapid expansion of foreign investments and the economic development needs of China. In its earliest version, the Law of the People's Republic of China on Foreign Enterprises (LFE) imposed onerous requirements particularly for the WFOEs and CJVs, which intended to establish themselves in China.[93] These provisions included the lengthy application and strict approval system for foreign investment enterprises under the competent authorities since 1979.[94] The FIEs must apply for an official approval both from the local authorities and central government by submitting detailed documentation.[95] Before commencing any business activities the FIEs must also file a relevant licence application following the central government's approval.[96]

Besides these restrictions imposed on FIEs, the government on the other hand enacted inducement measures to steer foreign investments towards the targeted industrial sectors, particularly for industries which are export and advanced technology related.[97] For example, the approval for WFOEs was also based on their use of

[90] Gao and Jiang, supra n 13, Legislation; Law of the People's Republic of China on Joint Ventures Using Chinese and Foreign Investment《中华人民共和国中外合资经营企业法》1979 (Hereafter EVJ Law); Law of the People's Republic of China on Chinese-Foreign Contractual Joint Ventures,《中华人民共和国中外合作经营企业法》(1988); Law of the People's Republic of China on Wholly Foreign-Owned Enterprises,《中华人民共和国外资企业法》(1986).

[91] Regulations for the Implementation of the Law of the People's Republic of China on Chinese–Foreign Equity Joint Ventures《中华人民共和国中外合资经营企业法实施条例》(1983), (hereafter EJV Regulations); Regulations for the Implementation of the Law of the People's Republic of China on Foreign-Capital Enterprises《中华人民共和国外资企业法实施细则》(1990); Regulations for the Implementation of the Law of the People's Republic of China on Chinese-foreign Contractual Joint Ventures,《中华人民共和国中外合作经营企业法实施细则》(1995); Zheng, supra n 90, 272.

[92] Gao and Jiang, supra n 13, Basic Framework of China's Foreign Investment Laws and Policies.

[93] Law of the People's Republic of China on Foreign Enterprises (1986) (hereinafter LFE); Zheng, supra n 90, 279.

[94] LFE Article 6; Law of the People's Republic of China on Chinese-Foreign Contractual Joint Ventures (1988), Articles 5–8; Law of the People's Republic of China on Foreign-Capital Enterprises (1986), Articles 6–8; EVJ Regulations, Article 13.

[95] White (2003), 44.

[96] EVJ Regulations, Article 11.

[97] Potter, supra n 31, 166; Provisions of the State Council of the People's Republic of China for the Encouragement of Foreign Investment (1986), Article 3; Law of the People's Republic of China on Chinese-Foreign Contractual Joint Ventures (1988), Art 4.

advanced technologies and products export.[98] The Provisions on Encouragement of Foreign Investments provided tax benefits and preferential treatment for high-technology and export enterprises and reduced administrative procedures to increase independent business management.[99] The foreign investment could receive a full refund of tax if it reinvested the profits to enterprises that are export-orientated or technologically advanced.[100] A reduced income tax rate of 15% is applied to foreign enterprises if they are export or advanced technology orientated companies or if they are set up in an 'Economic and Technical Development Zone'.[101] In terms of tax benefits, foreign enterprises enjoyed a more advantageous income tax at a rate of 17% on average in comparison to the domestic enterprises at 33%.[102]

The legal framework prior to 2019 had many defects, such as being cumbersome and inconsistent.[103] The Chinese FDI legal system had more than 200 laws and regulations being enacted before 2000; nevertheless, it remained far from being well-established.[104] From a macro-social-economic perspective, several obstacles impeded the establishment of a legal system in order to serve the needs of an unprecedented socialist market economy country like China. These obstacles include China being a social market economy with a strong state-plan element and socialist-state control. Under this phenomenon, the Chinese legal system can impose requirements on foreign enterprises which contradicte the international norms. Zhao identified that 'corruption and a lack of transparency hinder the establishment of an independent and impartial legal system'.[105]

The previous framework regulated all foreign investments by types, resulting in huge discrepancies of requirements for different entities, e.g. different approval periods and different rules for the board of directors.[106] The approval system was heavily criticised for its onerousness and strictness, i.e. any subsequent material changes, such as capital changes, amendment of articles of association and M&As requiring a governmental approval.[107] The other problems include the lack of a well-developed intellectual property law in China and the lack of certainty with the government policies towards FDIs, both of which had the effect of impeding the flow of the FDIs in China previously.[108]

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[98] The Law of the People's Republic of China on Wholly Foreign-Owned Enterprises (1986), Article 3.

[99] Zheng, supra n 90, 301; Provisions of the State Council of the People's Republic of China for the Encouragement of Foreign Investment (1986), Articles 5–10.

[100] Renwald (2006).

[101] Income Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises (1991), Articles 7–8; Income Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises (2007) Article 73.

[102] Renwald, supra n 101, 468.

[103] Gao and Jiang, supra n 13, Cumbersome and Inconsistent Legislation.

[104] Zhou, supra n 90, 45.

[105] Ibid.

[106] Gao and Jiang, supra n 13, Cumbersome and Inconsistent Legislation.

[107] Chen, supra n 89, 693.

[108] Zhou, supra n 90, 46; Chen, supra n 89, 692.

Notably, these legislative obstacles were subsequently alleviated to some extent, such as the local governments could carry out the approval process; the Chinese government strengthened its laws to protect IP rights.[109] The leading up to and following China's accession to the WTO, the Chinese government took several steps to reform the foreign investment law and embraced a more inclusive approach towards the FIEs compared to the earlier legal framework. For example, it started to open up more sectors for foreign investors, including electric vehicles and financial services and foreign ownership in the financial services sectors.[110] The other alleviations and modifications for WFOEs consisted of the requirements of advanced technology, the product export percentages,[111] the prohibition on a direct sale of products to the domestic market without government approval,[112] the requirement of all raw materials and fuel being purchased within China unless it is unobtainable from domestic sources[113] and the compliance to China's price control rules and the restriction of WFOE investment to certain business lines.[114] By 2017, President Xi promised post-entry national treatment to foreign companies and guaranteed to tackle a range of policies which imposed informal discriminate restrictions on the FIEs' post-establishment.[115] The reformed legal framework indicated China's willingness to cultivate a more friendly and inclusive investment environment towards the FIEs, in particular the WFOEs. This is a trend seen in China's subsequent foreign investment law reforms.

4.2 The New Foreign Investment Law 2019

China enacted the new Chinese Foreign Investment Law (the New Law) in 2019, which made several substantive changes, e.g. emphasising the protection and promotion of foreign investments in China. It reshaped the Chinese foreign investment law in several major ways, including providing a level playing field for all entities operating in China and enhancing investors' protection and national security scrutiny. The New Law was praised as a 'landmark achievement' in China's pursuit of market liberalisation and economic reform; it streamlined the previously fragmented regime.[116] In order to encourage foreign investments, China vowed to build a market environment

[109] Chen, supra n 89, 693.

[110] Regulations on Foreign Investment Guidelines (2002); Renwald, supra n 101, 487; Hanemann et al., supra n 7, 16.

[111] White (2003).

[112] Ibid, 108.

[113] Ibid, 108.

[114] White, 'Enter the Dragon: Foreign Direct Investment Laws and Policies in the P.R. C,' supra n 96, 41.

[115] Ministry of Commerce of the People's Republic of China (2017); Hanemann et al., supra n 7, 16.

[116] Zhou, Jiang and Kong, supra n 55, 12.

with stability, transparency, predictability and fair competition.[117] The enactment may be a reaction to the recent criticism against China such as a lack of openness, a forced technology transfer and IP theft.[118] Since it provided only a high-level regulation foreign investors and critics remain sceptical about the substance and the effectiveness of the New Law.[119]

4.2.1 A 'Negative List' Approach to Market Access

The 2019 reform repealed the old foreign investment law regime under the 'Three Investment Laws' and established the 'pre-establishment national treatment plus the Negative List' management scheme.[120] Article 28 states that 'fields not included in the Negative List shall be managed under the principle that domestic investment and foreign investment shall be treated uniformly'.[121] Article 29 states that 'during the process of foreign investment, where verification and record-filing of a foreign investment project are required relevant provisions of the State shall be followed'.[122] In essence, foreign investments, including all foreign investors and foreign-invested enterprises would receive equal treatment like the domestic entities unless they fall into the 'Negative List'.[123] The New Law signified that China's inclusive attitude towards 'national treatment' for FIEs,[124] set a free path for the EU-China BIT to include the pre-establishment national treatment.[125] It indicates China's endeavour to bring a level playing field for foreign investments, to standardise its foreign investment rules and to unify market access.[126] It filled the regulatory gap and substantiated the Negative List's impact because it extended the national treatment at an entry level as well as to many post-establishment activities.[127]

The 'Negative List' system was initiated in the 2015 reform proposal, which led to its implementation in October 2016.[128] The concept of national treatment and the Negative List had already been widely accepted and adopted in other BITs and Free Trade Agreements since the 1980s.[129] It operates only through two categories,

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117 The Foreign Investment Law of the People's Republic of China (2019) Article 3.

118 Koty (2019); Zhou, Jiang and Kong, supra n 55, 12.

119 Alex Zhang and Tsoi (2019); NPC Observer (2019).

120 Foreign Investment Law (2019), Article 4.

121 Ibid, Article 28.

122 Ibid, Article 29.

123 Ibid, Article 1.

124 Zhang, supra n 9, 13.

125 Lian, supra n 54, 154.

126 Wong (2019) Dorcas Wong, 'China's New Negative List Targets Unified Market Access', supra n 179.

127 Zhou, Jiang and Kong, supra n 55, 13.

128 Liu (2018).

129 Lian, supra n 54, 144; North American Free Trade Agreement, Can.-Mex.-U.S., Dec. 17, 1992, Chap. 3.

the 'prohibited' category and the 'restricted' category. This means that the relevant procedures, standards and approvals would still apply to industries which are on the 'Negative Lists',[130] while other foreign investments would enjoy national treatment like any other Chinese domestic investments. Previous discussion suggested that the 2012 Catalogue erected high barriers for foreign investments under its prohibited and restricted Catalogues, the Negative Lists. The NDRC and the MOFCOM amended the 'Negative List' in 2020, which reduced items further to 33 for the National Negative List and 30 for the FTZs Negative List.[131] The 'Negative List' approach indicates China's strengthened commitment to the EU-China BIT negotiation.[132] The 'pre-establishment national treatment plus the Negative List' abolished the Approval system, resulting in less burden for foreign investors but high efficiency in the administrative procedures.[133]

The foreign investment enterprises can enjoy preferential treatment for special sectors, industries and regional investments like any domestic enterprises.[134] The FIEs can participate through fair competition and enjoy equal treatment as the domestic enterprises in governmental procurement activities.[135] All local governments and relevant departments should simplify the procedure and improve efficiency and transparency when handling investment affairs and services.[136] Besides the national treatment, Article 30 allows foreign investments to enjoy the same conditions and procedures when obtaining licences.[137] The New Law retained the record filing system;[138] it replaced the approval-based system with a much-simplified registration/reporting-based system.[139] The 'case-by-case' approval system was onerous as any establishment and subsequent changes of FIEs or foreign investments through M&As must first obtain an approval from the MOFCOM.[140] The requirement of filing-for-records should streamline the registration process for FIEs outside the 'Negative Lists' and reduce the administrative hurdles.

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130 Wong, supra n 127.

131 Special Management Measures for the Market Entry of Foreign Investment (Negative List) (2020 Version) (2020 Foreign Investment Negative List)《外商投资准入特别管理措施(负面清单)(2020年版)》; Special Management Measures for the Market Entry of Foreign Investment in Pilot Free Trade Zones (Negative List) (2020 Version) (2020 FTZs Negative List)《自由贸易试验区外商投资准入特别管理措施(负面清单) (2020年版)》.

132 Li (2015).

133 Liu, supra n 129, 153; Conventus Law, 'Interpretation of the New Implementing Regulations of the Foreign Investment Law of the People's Republic of China', (30/January, 2020) online available: http://www.conventuslaw.com/report/foreign-investment-in-china-has-entered-into-the/, accessed on 21/04/2020.

134 Foreign Investment Law (2019), Art, 14.

135 Ibid, Article 16.

136 Ibid, Article 19.

137 Ibid, Article 30.

138 Foreign Investment Law (2019), Article 34.

139 Foreign Investment Law (2019), Article 31; Zhou, Jiang and Kong, supra n 55, 13.

140 Zhang and Yang (2016).

4.2.2 Enhanced Protection of Foreign Investments

The New Law set a goal to protect the legitimate rights and interests of foreign investors.[141] First, it specified that the Chinese State will not expropriate or nationalise the FIEs' investments except for public interest reasons. Any nationalisation or expropriation must adhere to legal procedure and the amount of compensation must be just and reasonable.[142] This position remains unchanged compared to China's previous approach towards foreign investments;[143] however, the New Law does not spell out the legal standard of 'just and reasonable'. It is not clear how this standard differs from the prevailing international standard concerning expropriation, such as the 'Hull Formula' of 'prompt, adequate and effective compensation.'[144] This gives rise to the important role of the EU-China BIT negotiation to set the appropriate standards.

Secondly, under the New Law, the FIE can use either RMB or other foreign currencies for cross-border transfers.[145] The FIEs previously had an obligation to maintain their own foreign exchange balance under the old legal regime.[146] This requirement supported the Chinese government's tight control on the foreign exchange in order to avoid the RMB's devaluation while encouraging the inflow of foreign exchanges.[147] This commitment was largely abolished through the new Foreign Exchange Regulations in 1997.[148] Instead, RMB was the standard currency of FIEs for general purposes, such as the financial accounting reports, registered capital and foreign exchange control.[149] The New Law should relieve the FIEs' obligation from using RMB as a standard currency, resulting in more competitiveness for the FIEs in the international market with an added benefit to trade with other foreign currencies.

Thirdly, the New Law enhanced the protection of IP rights and commercial secrecy for foreign investors and prohibited forced technology transfer.[150] IP rights infringements in China presented a critical problem for foreign investors. Both the USA and the EU placed China on their priority watch list for IP infringements, and 70%

[141] Lian, supra n 54, 150.

[142] Foreign Investment Law (2019), Art 20.

[143] LFE, Article 9.

[144] Zhou, supra n 90, 84.

[145] Foreign Investment Law (2019), Art 21.

[146] EJV Regulations Article 14(8); the Wholly Foreign Owned Enterprise Law of the People's Republic of China (1986), Article 18; The Law on Contractual Joint Venture of the People's Republic (1988), Article 20.

[147] Zhou, supra n 90, 61 and 132; Rules of the People's Republic of China on Foreign Exchange Control 1997, (Hereinafter Foreign Exchange Regulations), Article 6, 9, 10 and 11.

[148] Zhou, supra n 90, 61 and 132; Foreign Exchange Regulations, Article 9–18.

[149] Regulations for the Implementation of the Law on Sino-foreign Equity Joint Ventures (2003), Article 18, 23, 74, 75.

[150] Foreign Investment Law 2019, Chapter III and Article 22.

of European Companies doing business in China complained of IP right infringement.[151] In March 2018, the USA, the EU and 16 other countries and regions jointly initiated proceedings against China concerning certain measures pertaining to the protection of IP rights.[152] Chinese courts received 40,000 cross-border IP related litigations in 2017.[153]

In 2019, the Chinese government amended several key statutes to enhance IP protection for foreign investors, including the Trademark Law, Patent Law and the Anti-competition Law. Previously, IP protection was largely hampered by inadequate damages rewarded by the Chinese courts' judgement with only 35% of claimant's damages being awarded.[154] Bridging the damage cap, strengthening the protection of IP rights and implementing the punitive damages for IP right infringements became the pressing objectives of the government's working plan.[155] The recent amendments in the Trademark Law 2019 imposed punitive damage of up to five times of any actual damages or up to RMB 5 million if the damages are uncertain.[156] For parties maliciously infringing a trade secret, the fine can be up to RMB 1 million or up to RMB 5 million in serious circumstances.[157] The new Patent Law 2019 enhanced the administrative management and protection of inventions in patent applications, although it failed to impose punitive damage for patent infringement with a relatively low damage award based on the actual loss of the right holders, the actual gains of right infringers or damage from RMB 10,000 to 1 million if the damage cannot be determined.[158]

Beside the legislative reform the Supreme People's Court established an Appellate-Level IP Tribunal operating as the court of final appeal for cases involving patent infringements, invalidation and other high-technology or antitrust IP disputes in 2019.[159] This Appellate Tribunal constituted a major breakthrough of China's protection of IP rights.[160] This system updated China's IP law by creating a legal environment to better facilitate scientific and technological innovation. The protection offered by the New Law should be read together with the recent IP law legislation reforms, which indicated China's clear intention to curb the substandard practice concerning IP infringements and to create a fair and efficient investment market for foreign enterprises.

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151 USTR (2017); European Commission, 'Report on the Protection and Enforcement of Intellectual Property Rights in Third Countries', supra n 38, 6; Tang (2019).

152 WTO, 'China-Certain Measures Concerning the Protection of Intellectual Property Rights' (23 March 2018) DS542.

153 Tang, supra n 152, 2.

154 Wu (2016).

155 Keqiang (2018).

156 Trademark Law of the People of China (2019 Amendment), Article 63.

157 Anti-Unfair Competition Law of the People's Republic of China (2019 Amendment)《中华人民共和国反不正当竞争法(2019 修正)》, Article 21.

158 Patent Law of People's Republic of China (2019), Article 21(3) and 65(2).

159 Supreme People's Court, 'Regulations on Several Issues Regarding IP Tribunal'《最高人民法院关于知识产权法庭若干问题的规定》, Fa Shi (2018), 22; Tang, supra n 152, 6.

160 Lin (2019).

The New Law strictly prohibited forced technology transfer. It took the approach of technical cooperation based on voluntary principles and business rules freely negotiated between investors and host countries.[161] The technology transfer was a major drive for China's promotion of FDIs from the very beginning of China's 'opening-up' policy, Economic Reform and its subsequent Five-Year Plans.[162] The foreign inward FDIs in China were largely steered by the advantage of low-cost production, low labour costs and access to policy incentives and capital offered by the Chinese government. Nonetheless, empirical studies in the 1990s showed that the level of technology transfer into China through inward FDIs were limited and at an expected level.[163] Not only the foreign investors, from countries including the Western Countries and Japan were reluctant to transfer know-how for fear of losing control, the technology brought by foreign investment was not highly advanced in general with only two years ahead, in contrast to the technological gap between China and Western countries was over 20 years in the 1990s.[164]

The advancement of technology was a key component in China's foreign investment law in the 1980s and 90s to meet the State's need and economic development. This was shown in the approval of foreign investments which were largely steered towards the importation and diffusion of advanced technology for China's long-term economic interests.[165] This approach was relaxed in the 2000s as some restrictions were eliminated, such as a narrower scope of import technologies which were subject to review.[166] Nonetheless, more high-tech industries were added to the 2002 and 2007 Catalogues.[167] Noticeably, the FDIs would continually benefit from preferential treatment for bringing high and new technology into China.[168] During the last decade, China had exuberantly promoted the technology advancement in its national development policies and strategies.[169] More industries of advanced technology and

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[161] Foreign Investment Law (2019), Article 22.

[162]《中国共产党第十一届中央委员会第三次全体会议(公报)》(Report of the Third Plenary Session of the 11th Central Committee of the Communist Party of China in 1978) These Five-Year Plans Include the Sixth Five-Year Plan (1981–1985), the Seventh Five-Year Plan (1986–1990), the Eighth Five-Year Plan (1991–1995) and the Ninth Five-Year Plan (1996–2000).

[163] Young and Lan (1996); Chen, supra n 89, 699.

[164] Ball et al. (1993); Young and Lan, supra n 164, 673.

[165] Regulation of the People's Republic of China on the Administration of Technology Import Contracts《中国人民共和国技术引进合同管理条例》(1985), Article 9.

[166] Ibid.

[167] Catalogue for the Guidelines of Foreign Investment《外商投资产业指导目录》(2002); Catalogue for the Guidelines of Foreign Investment《外商投资产业指导目录》(2007).

[168] Interim Provisions on the Establishment of Foreign-Invested Start-up Enterprises《关于设立外商投资创业投资企业的暂行规定》(2001), Art 1; Interim Measures for the Administration of Start-up Enterprises,《创业投资企业管理暂行办法》, Order No. 39 of National Development and Reform Commission (2006).

[169] Twelfth Five-Year Plan for Economic and Social Development of the People's Republic of China《中华人民共和国国民经济和社会发展第十二个五年规划纲要》2011–2015, 14 March 2011; Thirteenth Five-Year Plan for Economic and Social Development of the People's Republic of China《中华人民共和国国民经济和社会发展第十三个五年规划纲要》2016–2020; Notice on

know-how were added to the latest Catalogue Encouraged Industries for Foreign Investment 2019.[170]

The USA, EU and Japan accused China of forced technology transfer, the highlight of which was a series of joint or unilateral actions to compel China to change its law and practices. By 2018 both the USA and EU,[171] joined by Japan, requested a consultation with China concerning the issues surrounding technology transfer through the WTO's Dispute Settlement Body. The issues raised were mainly related to provisions of the Regulations for the Implementation of the Law of the People's Republic of China on Chinese–Foreign Equity Joint Ventures ("EJV Regulation"), the Law of the People's Republic of China on Chinese–Foreign Equity Joint Ventures and the Regulations of the People's Republic of China on the Administration of the Import and Export of Technologies ("TIER") and the conduct of the administrative authorities which compelled technology transfers. These included the terms limiting the protection of transferred technology to 10 years;[172] the provisions treating foreign IP right holders less favourably than Chinese ones;[173] the Chinese authorities pressurising the disclosure of sensitive company information and technology transfer;[174] the requirement of technology advancement by the foreign investors to suit the needs of China;[175] the submission of transferred technology to Chinese authorities for administrative approval purposes[176] and the formality and registration requirements on the importation of technology.[177]

In response to these accusations, the New Law implemented several prohibitions on the part of the administration authorities, such as the prohibition of 'forced' technology transfer and the imposition of criminal penalties on IP right infringers.[178] Alongside these new provisions, the Chinese Regulators repealed the old FIE law system. It removed the most controversial provisions, Article 24(3), 27 and 29 under

the Printing and Release of 'Made in China 2025《国务院关于印发 '中国制造 2025' 的通知》2015.

[170] Catalogue of Industries for Encouraging Foreign Investment《鼓励外商投资产业目录2019》(2019).

[171] USTR, 'Findings of the Investment into China's Acts, Policies and Practices Related to Technology Transfer Intellectual Property and Innovation under Section 301 of the Trade Act of 1974,' (Section 301 Report I), (22 March 2018), at 36–43; WTO, 'China—Certain Measures on the Transfer of Technology, Request for Consultations by the European Union,' (6 June 2018) WT/DS549/1; European Commission, 'EU Steps Up WTO Action Against China's Forced Technology Transfers,' (20 December 2018).

[172] EJV Regulations, Article 43(3) & (4).

[173] EJV Regulations, Article 24, 27 & 29(3).

[174] USTR, Section 301 Report I, supra n 172, at 36–43.

[175] The Law of the People's Republic of China on Sino-Foreign Joint Ventures promulgated July 1, 1979, [hereinafter EJV Law], Articles 5; EJV Regulations, Article 41.

[176] EJV regulations Article 7, 11, 26 and 27.

[177] The Regulation on the Administration of Import and Export of Technology《中国人民共和国技术进口管理条例》2001 ('TIER') Order No. 331 of the State Council, as amended by Order No. 588 of the State Council on 8 January 2011, and Order No. 709 of the State Council on 2 March 2019, Article 18–21.

[178] Foreign Investment Law (2019), Article 22, 23 and 39.

the TIER 2019 and brought the treatment for foreign investors to national standards under the principles of fair, reasonable and parties' contractual autonomy.[179] It added more protection to foreign investors that they are now not responsible for IP infringement complaint by a third party. The removal of these controversial provisions was plausible for effectively addressing the challenges instigated by the USA and EU in the WTO disputes with regard to the 'forced' technology transfer issue.[180] At the same time the administrative bodies must not disclose the business secrets of foreign investors to others.[181] This should deal with the problem of administrative authorities disclosing any technology to other parties.

Lastly, the New Law requires the Chinese government to set up a FIE Complaint Mechanism, which can deal with any problem of the FIEs or situations where the administrative agencies and staff breach the FIEs' legitimate rights on the bases of coordination and mediation. If this mechanism failed to deal with the administrative agencies and staff breaches, the FIEs can apply for an administrative review or bring an administrative lawsuit.[182] The Complaint Mechanism based on coordination and mediation coincides with the well-recognised inclination in the Chinese legal system, i.e. the consultation or mediation is a much favoured way in settling a dispute between parties.[183] In some cases, mediation would be a compulsory phase before re-coursing an arbitration or litigation in China.[184] Although the language used in the New Law does not impose a mandatory obligation for the parties to engage in the Complaint Mechanism, it certainly suggests that foreign investors should first and foremost try to settle the dispute before instigating a court litigation or calling on an administrative review. While this mechanism can be effective and minimises the cost and negative impact on businesses, the Chinese state authorities should diligently safeguard this system from bias and corruption.[185]

In terms of the lack of certainty and transparency in China's judicial system, the New Law specified that governments, local governments and their relevant departments should comply with the relevant laws and regulations for the promotion of foreign investments; the relevant operative authorities should also prepare and publish foreign investment guidelines to provide services and facilities for foreign investors and foreign-invested enterprises.[186] This requirement would add some certainty and transparency to the lawful operation of the Chinese government and its relevant operative authorities. Nonetheless, it did not directly address the institutional issues existing in the current Chinese judicial system, such as the issues of corruption, poor training and abuse of power, political connections and the inability to compel

[179] TIER, 2019 Amendment, Art 3.

[180] Zhou, Jiang and Kong, supra n 55, 15.

[181] Foreign Investment Law (2019), Article 23.

[182] Foreign Investment Law (2019), Article 26.

[183] Renwald, supra n 101, 471.

[184] Ibid.

[185] Ibid.

[186] Foreign Investment Law (2019), Article 18 and 19.

production of evidence and to enforce awards. Henceforth, the EU-China BIT must continue to address these problems.

The FIEs are likely to be subject to national treatment and the jurisdiction of China's domestic legal system with regard to their right to call for an administrative review or court litigation against administrative agencies' or relevant staff breaches. FIEs and the WFOEs were considered domestic bodies in China or not sufficiently international by the Chinese court with litigations.[187] Should the FIEs decide to take a court action, the Chinese court system is a less favoured option because of the concerns over the rule of law in China. China being a socialist country under the people's democratic dictatorship,[188] the CCP has substantial influence over the law-making bodies and the court system, while the Supreme Court does not have the power to interpret the law.[189] With these characteristics, the Chinese court system does not provide sufficient certainty for FIEs as it is likely to give priority to the CCP's political objectives and the economic needs of the country.[190] The position of the EU investors' rights to bring an administrative review at international tribunals should be clarified in the EU-China BIT negotiation given that inconsistent, nonetheless, restrictive rules existed in the current BITs.

Notably the FIEs can also use the mechanism of arbitration or have access to the China International Economic and Trade Arbitration Commission (CIETAC) as an international arbitration commission.[191] Compared to the domestic arbitration commission, such as the CIETAC, the use of other international reputable arbitration commissions, such as the ICC, ICSID, UNCITRAL and Stockholm Chamber of Commerce to resolve a dispute, was a favourable option for FIEs for political neutrality and arbitration expertise considerations in the twenty-first century.[192] The New Law is less clear on whether the Chinese government would freely approve any international arbitration commission chosen by the FIEs since the domestic arbitration commission is likely to offer more familiarity to the domestic parties. Therefore, the EU-China BIT should clarify this position as to whether FIEs can freely access international arbitrations and if so, which arbitration commission to use. In addition to these legal routes to challenge an illegal practice concerning the 'forced' technology transfer, the WTO's Dispute Settlement Mechanism should also be an effective avenue to address this issue.[193] The New Law and the other existing international legal system should work together to safeguard the legal rights of the FIEs, particularly the IP rights and the rights existing in innovative technologies. China welcomed a new approach which provided more flexibility and choice for FIEs to

[187] Renwald, supra n 101, 471.

[188] Constitution of People's Republic of China《中华人民共和国宪法》, Article 1.

[189] Coe (2002); Constitution of People's Republic of China, Article 67.

[190] Come, 'Creation and Application of Law in the PRC', supra n 190, 375.

[191] China International Economic and Trade Arbitration Commission Rules 2014, Article 1.

[192] Tao and Shen, supra n 3, 1162.

[193] Zhou, Jiang and Kong, supra n 55, 16.

resolve a dispute in the most recent BITs. China should avoid pushing for a local resolution with regard to the FIE's disputes in the EU-China BITs.[194]

4.2.3 National Security Review

Article 35 gives the Chinese State the power to conduct a security review on foreign investments.[195] The New Law does not prescribe a clear criteria and trigger events for the review processes. The lack of detail in the review scope, criteria and processes created uncertainties for the FIEs and the government authorities.[196] Previous foreign investment law allowed the government to conduct a national security review on transactions relating to acquiring control over Chinese companies by foreign investors, i.e. the 50% ownership threshold adopted by the Chinese State Council in 2011.[197] The New Law is extremely vague as to which approach to take. Notably both approaches, the categorical list approach and the ownership control approach, have their own defects. The former is too broad and ambiguous, and the latter would automatically exclude a subset of critical sectors in which foreign ownership is restricted to minority interest.[198]

The EU implemented an EU framework, Regulation (EU) 2019/452 to screen foreign direct investments into the EU on the grounds of security or public order in March 2019. This Regulation authorises Member States to implement their own screening mechanisms and to be responsible for protecting their essential national security interests.[199] 15 Member States and the UK implemented security screen mechanisms.[200] The Regulation prescribes a list of factors for consideration in determining whether a FDI is likely to affect security or public order, such as the investment involving critical infrastructure and technologies or being controlled by a government.[201] At present, the sectors which are most commonly scrutinised include military and defence sectors and data-intense emerging and foundational technologies in M&A projects.[202]

The growing global tension over foreign investments for a national security reason constitutes an obstacle for the EU-China BIT and contradicts the objective of further increasing market access. A robust security screening framework is the first protocol

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[194] Tao and Shen, supra n 3, 1172.

[195] Foreign Investment Law (2019), Article 35.

[196] Zhou, Jiang and Kong, supra n 55, 17.

[197] State Council, Circular of the General Office of the State Council on the Establishment of National Security Review Regime Pertaining to the Mergers and Acquisitions of Domestic Companies by Foreign Investors《国务院办公厅关于建立外国投资者并购境内企业安全审查制度的通知》(2011), Article 1(3); ECORYs & TNO, supra n 16, 21–22.

[198] Liu, supra n 129, 300-01.

[199] Regulation (EU) 2019/452, Article 1.

[200] EC (2020).

[201] Regulation (EU) 2019/452, Article 4.

[202] Lovells (2019).

for a positive economic engagement with China and vice versa.[203] No country would open up all industries to foreign investors while the sectoral restrictions and screening hurdles would be standardised policies for national security reasons.[204] The foreign investment risk scrutiny is a necessity in order to improve the fairness and security of international foreign investments. A balance test should provide some guidance on how countries adopt their national security review mechanisms. Regulators must pay close attention to the balance between maintaining an open foreign investment market and protecting national security.[205] In terms of the EU-China BIT, a balanced approach is essential in order to encourage the freedom of contract and competition for an open liberal market.

An effective legal framework must consist of a clear definition of 'national security' and the review scope and standards.[206] States should also have the right to intervene when economic activities compromise national security and technology protection. Notably the EU Member States, especially Germany, which has a large stake in the EU-China trade relationship, rejected the disengagement and distortion arising from trading protectionism.[207] Hence, when coordination and cooperation during the EU-China BIT negotiations can achieve the optimal outcome, disengagement and distortion must be avoided.

4.3 Addressing the Sticking Points in EU-China BIT Negotiations

The new legal framework addresses the sticking points in the EU-China BIT negotiations several ways. First, it increased market access and helped to level up the playing field for foreign investors. It repealed the old foreign investment law system and implemented the 'pre-establishment national treatment plus the Negative List' management scheme. The introduction of national treatments for qualified FIEs dealt with the problems that the FIEs were subject to much restrictive rules and requirements when entering and operating in the Chinese markets, such as the lengthy application and approval system, government strict control, local protectionisms and restrictive access to certain industries. The government further refined the 'Negative List' and reduced the items on the list. This reduction substantively released more industries, of which the FIEs can enjoy national treatments and a much faster and simpler registration system.

Secondly, the New Law secured more protection and certainty for the legitimate rights of foreign investors in China, although this protection mainly focused

[203] Hanemann et al., supra n 7, 23.
[204] Zhou, Jiang and Kong, supra n 55, 83.
[205] Liu, supra n 129, 298; Li, supra n 133, 309; BDI, supra n 61, 7.
[206] Li, supra n 133, 309.
[207] BDI, supra n 61, 7.

on inward investments from foreign countries. The provisions include the non-compulsory expropriation or nationalisation of the FIEs' investment except for public interest reasons. It abolished the mandatory use of RMBs. Alongside the certainty of protection these provisions should increase the FIEs' competitiveness in the international markets. The other protection offered by the New Law covers the FIEs' IP rights and advanced technologies to address the voluminous complaints from China's international counterparties. The Chinese government engaged its legislative power and amended several key statutes to enhance IP protection for FIEs prior to the enactment of the 2019 Foreign Investment Law. The imposition of punitive damages on IP rights infringers and the establishment of the Appellate-Level IP Tribunal showed China's tough stance of the deterrence of the IP right infringement so as to create a fair and efficient investment environment for FIEs.

The New Law strictly prohibits the practice of forced technology transfer. This was reinforced by the imposition of criminal punishment. When the situation does not involve forced technology transfer, the New Law supports the technical cooperation under the principle of free negotiations between the parties. This new legal system mainly applies to foreign investment in the territory of China,[208] i.e. inward FDIs. The New Law applied to a wider range of foreign investment activities, the definition of which is close to the broad asset-based definition that had already been widely adopted in BITs.[209] Nonetheless, it does not specifically cover outward FDIs, such as China's overseas investments through merging and acquisition, which specifically targeted the key technologies and industries. Hence, the sticking points of the threat of takeover with regard to the acquisition of advanced technologies and know-how by Chinese investments in the EU remains a problem for the EU-China BIT.

Thirdly, the New Law implemented provisions which drastically addressed the issues of the lack of legal certainty and transparency of the Chinese legal system as well as the investment environment between the EU and China. The FIEs can settle a complaint swiftly at a low cost by using the FIE Complaint Mechanism or to instigate an administrative review and a lawsuit. The New Law required the Chinese government and relevant authorities to carry out the laws and regulations and to publish foreign investment guidelines, although it did not address the institutional issue of the Chinese legal system. The FIEs are likely to receive national treatments under the national court system; nonetheless, the Chinese court system is less preferred for the lack of political mutuality and certainty. Where the national legal system falls short in resolving the FIEs' dispute, international dispute mechanisms would be made available for the FIEs, such as the international arbitration commissions or the WTO Dispute Settlement Mechanism. Hence, the EU-China BIT should delineate a clear dispute resolution framework in this regard.

Lastly, the New Law reinforced the power of the Chinese government to review all foreign investments for national security reasons. This did not deal with the complaints of FDIs from other countries with regard to the threat to national security from the Chinese outward FDIs in the EU. Likewise, many EU Member States already

[208] Foreign Investment Law (2019), Article 2.

[209] Lian, supra n 54, 150–151.

took an action unilaterally to tighten their laws to safeguard national securities, inevitably at an unequal footing. The New Law did not prescribe clear scope, criteria and processes for review. Given that the national security is such a sensitive issue for any sovereign countries, the EU-China BIT must address this issue under a balanced approach, i.e. facilitating an open and liberal market within the sphere of a safe and secure environment.

5 Conclusion

The EU-China BIT is likely to be shaped by the two regimes' foreign investment policies and economic goals, such as facilitating an effective trade access and investment protection. The EU-China BIT is a favoured strategy for economic development for both parties. Since the 2007–08 Financial Crisis, the EU aimed to attract FDIs and deepen the single market, while China switched from attracting inward FDIs to promoting outward FDIs.[210] Notably China since made swift improvements in these areas under its recent law reforms, resulting in a sharp soar in the China outward FDIs in the last few years. However, the new foreign law legal system provided a high-level principle basis, the effectiveness of which inevitably depends on the implementation of regulations and policies by the delegated regulatory bodies. With sufficient political will and effort, the challenges facing the EU and China investment relationship should gradually be eliminated, including closing the reciprocity gap and levelling up the playing field.

Despite the divergences and challenges, the EU and China should pursue a trade relationship with cooperation to maximise shared interests and to shape the global economy. In the past China benefited greatly with its technology development and labour market from trading with the EU. It modernised its industry with the benefits of capital and technologies flowing from the Western countries.[211] This trade relationship should be reciprocal for the EU with an increasing number of foreign investments in China and vice versa. Hence, a foreign investment framework which facilitates effective cooperation and mutual benefits and avoids unnecessary disengagement should be the guiding principle for the EU-China BIT negotiations. Clearly, the series of Chinese recent foreign investment reforms followed up this principle. Noteworthily, the EU policymakers should also pursue an investment phenomenon with openness and an 'upward convergence' and reject the confrontative approach.[212]

[210] ECORYs & TNO, supra n 16, 23–25.

[211] Ibid, 6.

[212] Hanemann et al., supra n 7, 22.

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Country Case Studies

Russia–China Collaboration Under Pressure from the West: The Russian Perspective

Ksenia Kuzmina, Alevtina Larionova, and Vladimir Morozov

Abstract In recent years, Russia and China have significantly upgraded their bilateral partnership and started to speak with one voice on many global issues. Moreover, the two states agreed to co-develop their comprehensive visions for Eurasia. This strategic rapprochement comes at a time of growing confrontation between both Moscow and Beijing and the West. As this rift has emerged as one of the underlying trends in the world order dynamics, it is increasingly important to identify the extent to which rivalry with the U.S. and its allies could bring the two powers closer together. This article attempts to take an integrated look at the West's role in forging and fostering the Russia–China partnership by analyzing the varied set of factors behind the rapprochement and the progress made by the two states bilaterally and multilaterally. Additionally, prospects for even stronger collaboration were assessed. It is argued that Moscow and Beijing's partnership is driven by geographical proximity, economic complementarity and similar political backgrounds, but tensions with the West accelerated and cemented the rapprochement. While the collaboration trend dominates the relationship, structural difficulties hamper fully tapping its potential. Asymmetry already observed in the partnership may grow against the background of the global crisis, but clear red lines in domestic and international realms will persist for both Moscow and Beijing. Russia is likely to remain focused on preserving its strategic autonomy and diversifying partnerships.

Keywords Russia–China partnership · Rapprochement · Strategic autonomy · Diversifying partnerships

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Y.-C. Kim (ed.), *China and the Belt and Road Initiative*, Understanding China,
https://doi.org/10.1007/978-3-030-86122-3_8

1 Introduction

In the modern world, Russia and China as major powers are certainly forces whose influence on the international arena should not be underestimated. The dynamic of their partnership, as well as both states' confrontation with the West, plays an important role in determining both the regional and world order.

Throughout the long history of their relations, Moscow and Beijing have gone through various periods from open confrontation to significant convergence of goals and interests. In the last five years, their collaboration has emerged as one of the closest partnerships, and it continues to evolve in an even stronger relationship substantially resembling an alliance in many respects. The present stage of Russia–China relations is characterized by the countries themselves as a "comprehensive partnership and strategic interaction." Indeed, at the moment, Russia and China are implementing cooperation in all key areas, including multilateral and bilateral political dialogue, trade, investment, scientific and cultural interaction. This close cooperation is mainly due to the common goals pursued by Moscow and Beijing. After the end of the Cold War and the transition period of the early 2000s, both countries felt the strength to declare their geopolitical ambitions on the international arena openly. In this pursuit, they found significant opposition from traditional world leaders, namely Western countries, led by the U.S.

Both countries have complicated relations with the U.S. and the collective West. Moscow–Beijing rapprochement accelerated against the background of the crisis in Russia's relations with the West after the accession of Crimea in 2014. Since 2017, China has also found itself under rising U.S. pressure, which reinforces its interest in growing closer to Russia. The U.S. National Security Strategy explicitly labels both Russia and China as "revisionist powers," seeking to undermine the U.S. global leadership in critical regions, including the Indo-Pacific and Europe.[1] Moreover, the cooperation between the two countries is largely regarded as a "counterweight" to the U.S. and other Western powers and institutions. The resulting containment strategy is characterized by growing political and economic pressure (including sanctions, trade restrictions and limited dialogue) by the West. Such a strategy is ultimately accompanied by increasing pressure on U.S. allies and third parties to minimize their cooperation with Russia and China, thus pushing Moscow and Beijing toward greater cooperation and coordination on bilateral, regional and global issues. At the same time, some Western voices argue for engaging Russia or, more rarely, China, in order to step up pressure on the other power.

In this article, we will try to determine to what extent the factor of this opposition from the West influences the rapprochement between Russia and China, and whether it can contribute to and define the further development of their cooperation. The two countries, themselves being new centers of power on the world stage, have found it wise to seize each other's opportunities for better growth. The geographically close position in the center of Eurasia and ambitions to implement integration projects in

[1] National Security Strategy of the United States of America, The White House (2017).

the region are also factors of rapprochement, but could serve as a cause for rivalry between the two states.

As Russia and China grow closer, their partnership is increasingly discussed by the expert community both in the two states themselves and in other countries, first and foremost Western ones. Some of the experts attribute the closer bilateral partnership only to the external pressure, others fully exclude it from the list of reasons driving the two powers together, while most of the specialists tend to assess the whole set of factors.

Among Russian specialists who analyze bilateral relations between Russia and China extensively are Andrey Vinogradov, *RAS Institute of Far Eastern Studies (Moscow)*, Sergey Luzyanin, *MGIMO University (Moscow)* and *Higher School of Economics (Moscow)*, Alexander Gabuev and Temur Umarov, *Moscow Carnegie Center*, Igor Denisov and Alexey Voskresensky, *MGIMO University (Moscow)*, Vassily Kashin, *RAS Institute of Far Eastern Studies (Moscow)* and *Higher School of Economics (Moscow).* A number of experts such as Andrey Kortunov, *Russian International Affairs Council*, and Dmitry Trenin, *Moscow Carnegie Center*, mostly focused on the U.S. factor in relations between Russia and China. Other well-known experts examined in more detail the issues of Eurasian integration, the initiatives proposed by Moscow and Beijing and prospects for their bilateral synergy. In this context, Vladimir Petrovsky, *RAS Institute of Far Eastern Studies (Moscow)*, Sergey Karaganov and Alexander Lukin, *Higher School of Economics (Moscow)*, and Alexander Korolev, *Higher School of Economics (Moscow)*, should be listed.

Among the Chinese experts who look into the issues discussed in the article, it is worth mentioning Zhao Huasheng and Feng Yujun, *Fudan University (Shanghai)*, Li Yongquan and Pang Dapeng, *Chinese Academy of Social Sciences (Beijing),* as well as Yang Xuetong, *Tsinghua University (Beijing).* As for Western researchers who focus on various aspects of Russian-Chinese cooperation, specialists from such think-tanks as *the French Institute of International Relations (IFRI)*, *Italian Institute for International Political Studies (ISPI)*, *Council on Foreign Relations (CFR)*, *Center for Strategic and International Studies (CSIS)*, *Brookings*, etc. can be named.

In the study, an integrated approach to political studies and foreign policy was applied, implying a multifactor analysis of various areas of Russia–China cooperation, as well as the interaction of both countries with the West up until December 2020. The study consists of six parts which sequentially consider the brief history and conceptual provisions of Russian–Chinese cooperation, provide an overview of the main difficulties in relations between Moscow and Beijing with the West, highlight the opportunities and limitations for the development of the Russia–China partnership and also separately study the issue of cooperation between the two countries in Eurasia.

2 Russia–China Partnership: Basis for Collaboration

Development of Russia–China bilateral relations, which gained significant momentum in 2010s, is not a new trend and stems from a variety of factors, notably the geography, the structure of the two economies as well as largely similar views on world order and internal politics.

While the first documented contacts between the two Empires date as far back as fifteenth–sixteenth centuries, the current stage of official interaction between Russia and China runs from 1949 when the People's Republic of China was founded. The Union of the Soviet Socialist Republics was the first state to recognize the newly established country. The early 1950s were the prime era of Soviet-Chinese bloc when the two states formed an alliance and Moscow extended major military aid to the fellow communist country. USSR also provided great assistance to China's industrialization. The situation changed drastically by late 1950s. The split between Moscow and Beijing is attributed to the ideological differences in interpreting basics of communism as well as USSR's unwillingness to pursue belligerent strategies against the West. More generally, it is also explained by China's aversion to being seen as the USSR's junior partner.

Amid reform and subsequent collapse of the Soviet Union, Moscow's approaches to interaction with both the West and the East were dramatically revised which brought about normalization of Russia–China relations. In 1996, the two states officially proclaimed a strategic partnership which was later upgraded to a "comprehensive partnership and strategic interaction". The fundamental Treaty of Friendly cooperation and Good Neighborliness was signed in 2001 (expected to renew automatically in 2021). By 2020, this partnership, officially "entering a new era" of closer coordination, has become a priority relationship for both countries.

The major underlying factor in both states' willingness to foster partnership is geography. Russia and China share the 4200-km border, the second longest for Russia. This geographical proximity conditions utmost importance of the friendly relations with China for Russia's national security. It is worth mentioning that at the time of the Sino-Soviet split, the two states did have a border conflict of a small scale, and the common border was heavily militarized which required considerable financial resources. In the 1990s and early 2000s, Russian leaders spared no effort in settling the border issues with China. This objective was achieved in 2004 at a cost of a small portion of Russian territory. Final demarcation and complete demilitarization of the border with China can be considered one of major achievements of Vladimir Putin's foreign policy.[2]

Moreover, shared border facilitates building various ties at business and people-to-people levels. This factor is all the more important for Russia since China is bordering the Far Eastern region, development and prosperity of which was proclaimed Russia's priority internal task for the twenty-first century.

The complementarity of Russian and Chinese economies also serves as a natural driver for the two states' rapprochement.

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[2] Trenin (2012).

Russia has vast supplies of natural resources, particularly oil, gas, coal, timber, metals—items ever-growing Chinese economy needs. Energy exports traditionally make up more than 50% of overall Russian exports,[3] while China is one of the biggest global energy consumers and relies heavily on imports in order to satisfy national consumption demands.[4] Mutual trade interests are underpinned by the above-mentioned geographical factors. Russia–China energy transportation is much less likely to be interrupted than China's imports from other partners that are shipped mainly through the Strait of Malacca and the South China Sea. Tensions in these regions are high against the background of the U.S.–China strategic rivalry and territorial disputes with ASEAN neighbors. China, in turn, has traditionally offered a wide range of mass consumer goods in demand in Russia ranging from clothes and toys in the 1990s to personal electronics supplemented by other machinery and equipment in 2010s.[5]

Exploring vast Chinese market is undoubtedly in Moscow's interest, especially given the size of Chinese economy: Nowadays, China ranks second globally with $14,342,903 mln GDP, around 8 times the size of Russian economy, according to World Bank.[6]

In addition, though Moscow traditionally looked at the West in search for modernization opportunities for its economy and hi-tech sector, China has emerged as a promising partner on this front with its achievements in digital economy. According to official statistics, digital economy has surpassed 35% of China's GDP in 2018, and the country is competing for global leadership in several new technology sectors.[7]

The objective geographical and economic impetuses for closer bilateral collaboration are complemented by a number of internal and external factors. Internal factors

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[3] "Russia," The Observatory of Economic Complexity, accessed November 2, 2020, https://oec.world/en/profile/country/rus?yearSelector1=exportGrowthYear19.

[4] "China Overview," U.S. Energy Information Administration, last modified September 30, 2020, https://www.eia.gov/international/analysis/country/CHN;

Spencer Swartz and Shai Oster, "China Tops U.S. in Energy Use," *The Wall Street Journal*, last modified July 18, 2010, https://www.wsj.com/articles/SB10001424052748703720504575376712353150310.

[5] "Torgovlya mezhdu Rossiey i Kitaem v 2019g."[Trade between Russia and China in 2019], Vneshnaya Torgovlya Rossii [Russia's external trade], February 13, 2020, https://russian-trade.com/reports-and-reviews/2020-02/torgovlya-mezhdu-rossiey-i-kitaem-v-2019-g/#:~:text=%D0%92%202019%20%D0%B3%D0%BE%D0%B4%D1%83%20%D1%82%D0%BE%D0%B2%D0%B0%D1%80%D0%BE%D0%BE%D0%B1%D0%BE%D1%80%D0%BE%D1%82%20%D0%A0%D0%BE%D1%81%D1%81%D0%B8%D0%B8,110%20918%20574%20885%20%D0%B4%D0%BE%D0%BB%D0%BB.&text=%D0%98%D0%BC%D0%BF%D0%BE%D1%80%D1%82%20%D0%A0%D0%BE%D1%81%D1%81%D0%B8%D0%B8%20%D0%B8%D0%B7%20%D0%9A%D0%B8%D1%82%D0%B0%D1%8F%20%D0%B2,%D0%BF%D0%BE%20%D1%81%D1%80%D0%B0%D0%B2%D0%BD%D0%B5%D0%BD%D0%B8%D1%8E%20%D1%81%202018%20%D0%B3%D0%BE%D0%B4%D0%BE%D0%BC.

[6] World Bank (2020).

[7] "Tsifrovaya ekonomika prodolzhit stimulirovat' ekonomicheskiy rost Kitaya" [Digital economy continues to stimulate China's economic growth], *Rossiyskaya Gazeta* [Russian Newspaper], July 10, 2020, https://rg.ru/2020/07/10/cifrovaia-ekonomika-prodolzhit-stimulirovat-ekonomicheskij-rost-kitaia.html.

include those relating to domestic issues of both countries, as well as their views and values. External factors include dynamics of global development, including both Russia's and China's relations with the West.

First, Moscow and Beijing share multiple fundamental foreign policy values. Both states see the existing world order as unjust and inequitable, they oppose the U.S.'s willingness to play the dominating role in the international system and call for a multipolar order. Russia and China advocate against the interference in internal affairs of any country by foreign actors and accord utmost respect to state sovereignty and territorial integrity.

Second, there are similarities in internal policy approaches. Russian and Chinese administration systems differ substantially, and Russia's overall approaches to governance as well as overall popular mentality are much closer to Western ones. At the same time, the two states are linked by the common communism/socialism history, though the regimes eventually followed different paths. Currently, both Russia and China are characterized by the leading role of state in all areas coupled with strong leader figures in power (Vladimir Putin and Xi Jinping).

Third, effective Russia–China cooperation is supported by good personal relations between the two leaders. Since 2010, Russian President Putin and Chinese President Xi have met more than 30 times. Xi calls Putin his closest friend,[8] and Putin, for instance, made a friendly gesture by congratulating Xi on his birthday with a cake.[9] Though this friendship could not be a long-term collaboration factor, the agreements reached at times of good personal relations can serve as a basis for mutually beneficial partnership much longer.

The combination of these factors led to the gradual progress of Russia–China collaboration both on multilateral and bilateral fronts in the 1990s and 2000s. For instance, Moscow and Beijing founded together the Shanghai Cooperation Organization encompassing their common Central Asian neighborhood. Since 2005, both states take part the "Peaceful Mission" military drill. Since 2010, China has become Russia's main trading partner; hundreds of joint projects were discussed.[10] The emergence of a geopolitical factor—rapid degradation of Russia–West relations since 2014—motivated Russia to engage more energetically with the East. Against this background, Russia–China partnership accelerated both economically and strategically, which was further stimulated by growing tensions between China and the U.S. Thus, while pressure from the West has not been decisive in Russia–China rapprochement, it contributed significantly to its rate and level.

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[8] Morgulov (2019).

[9] "A cake, a vase and… a BOX of ice cream: Putin's birthday gifts that blew Xi Jinping away," *RT*, June 15, 2019, https://www.rt.com/news/461952-putin-xi-ice-cream-birthday/.

[10] Luzyanin et al. (2015).

3 Russia Under Pressure of the West

While both Russia and China are perceived as strategic rivals and revisionist powers[11] by the U.S. and its allies, the strategies as well the approaches toward their containment differ. Unlike Beijing which is perceived as a long-term and much more powerful contender, Moscow is viewed largely as a "destabilizing," yet declining power having only a marginal share of global economy despite its military capabilities. However, the asymmetry in economic and soft power on the one side and military capabilities on the other makes Russia more prone to direct use of force in ensuring its foreign and security interests. Therefore, for Washington and its allies containing Moscow involves a combination of political, diplomatic and economic pressure, while keeping the door open for the dialogue on strategic security issues, thus trying to avoid an unprecedented military clash.

Russia–West relations have continuously been poisoned by a lack a mutual trust resulting in a wide range of mutual accusations and restrictions. Contrary to popular belief that Russia–West relations collapsed in 2014–2017 largely because of the Ukrainian crisis and the alleged Russia's "meddling" into the domestic affairs of the U.S. and the EU countries, the deterioration of the relations already began in 1990s and was clearly seen since the famous "Munich speech" by President Putin during the Munich Security conference in 2007[12] and the conflict in South Ossetia in 2008. The further "reset" of Russia–U.S. relations as well as the much-heralded Russia–EU "Partnership for modernization" failed to eliminate the underlying problems in Russia–West relations. The ensuing crisis in Ukraine largely cemented these problems while also drastically reducing the scope and prospects for political dialogue.

What is more, both Russia and Western experts disagree on the moment the Western sanctions pressure on Russia began. The dominant view in the Western political and expert discourse states that the events of 2014 triggered the joint Western response toward Russia's foreign policy actions. Contrary to that both Russian officials and expert community largely agree that the first sanctions—the so-called Magnitsky Act[13]—were imposed before the situation in the Ukraine escalated to Russia–West conflict.

The Ukrainian crisis and the later emergence of the topic of "Russian interference in the U.S. elections" accompanied with deepening contradictions in all spheres and introduction of multiple anti-Russian sanctions, led to a complete degradation of Russia–U.S. relations. As a result, a notion of "Russian threat" has become an internal policy factor and is shared by the main political forces, as proven, for example, by constant accusations of "Russian meddling" in the U.S. elections.[14] An existing bipartisan consensus in the U.S. political elite cements the notion of Russia as a

[11] Mead (2014).

[12] Putin (2007).

[13] H.R.6156 (2012).

[14] Shuster (2020).

threat to the U.S. national security.[15] Similarly, Moscow regards the U.S. as the main threat to its interests. In this climate, even limited collaboration on issues of mutual concern such as arms control constantly reaches a deadlock.[16]

Unlike relations with the U.S., Russia–EU relations have been marked by a lower degree of confrontation, but the 2014 crisis dealt a critical blow to the ties in various areas. The positions of the actors diverge on a number of fundamental issues ranging from human rights to international conflicts. The prospects for rapprochement as well as practical cooperation are additionally complicated by the effects of the EU anti-Russian sanctions, which, however, are less harsh than the U.S. measures. Many EU countries, first and foremost, the Baltic states, the states of Central and Eastern Europe, see Russia as a critical threat to their survival.

While containing Russia by the U.S. and its allies involves a wide range of measures, the key components of such strategy can be divided into two major groups. The first group includes the measures aimed at strengthening the cooperation between the U.S. and the EU with regard to containing Russia's influence in its neighborhood, as well as supporting the neighboring countries in their desire to de-couple with Russia.

The second group involves direct economic pressure on Russia, e.g., sanctions against key sectors of Russian economy, including financial and energy sectors, high-tech and dual-use exports and military–industrial complex. The majority of the U.S. sanctions imposed with regards to the Ukrainian crisis as well as "Russian interference in 2016 presidential elections" were codified under the notorious CAATSA act[17] thus cementing the sectoral sanctions for an indefinite period.[18] Another set of the U.S. restrictive measures, yet on a much smaller scale, was imposed with regards to the "Skripal case" of 2018, Russia's involvement in Syria and against the Russian-European "Nord Stream-2" and "Turk Stream" pipelines. Finally, there is a number of new proposed sanctions with regard to "Navalny case", as well the new proposed legislation,[19] that may ultimately lead to increased sanctions pressure on Russia.

The EU on its part also implemented a set of restrictive measures against Russia. The sectoral sanctions regarding to the situation in Crimea and Eastern Ukraine are summarized in EU Council Decision No. 386[20] and EU Council Decision 512 of

[15] Newlin et al. (2020).

[16] Burns and Riechmann (2020).

[17] H.R.3364 (2017).

[18] Timofeev and Morozov (2020).

[19] See: S.482—Defending American Security from Kremlin Aggression Act of 2019, U.S. Congress, February 13, 2019, https://www.congress.gov/bill/116th-congress/senate-bill/482/text; S.1060—Defending Elections from Threats by Establishing Redlines Act of 2019, U.S. Congress, April 8, 2019, https://www.congress.gov/bill/116th-congress/senate-bill/1060/text.

[20] Council Decision 2014/933/CFSP of 18 December 2014 amending Decision 2014/386/CFSP concerning restrictive measures in response to the illegal annexation of Crimea and Sevastopol, Official Journal of the European Union, December 18, 2014, https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014D0933&from=EN.

2014,[21] while the sanctions regarding the Skripal and Navalny cases were imposed in 2019[22] and 2020[23] respectfully. Additionally, the EU imposed restrictive measures on Russia on the basis of the alleged interference and cyber-attacks, primarily against the German Bundestag.[24] The difference between the EU and U.S. sanctions is that the restrictive measures of the European Union are generally tied to the dynamics of the Ukrainian crisis. The EU sanctions with respect to interference or Skripal and Navalny cases remain personal and do not affect the Russian economy. Also, contrary to the U.S. sanctions, which have been generally codified under CAATSA Act, the EU sanctions still remain within the EU Council decisions, and are prolonged every 6 months, which means that lifting the EU sanctions remains possible in mid-term. However, despite the seeming divergence in the U.S.–EU sanctions pressure on Russia, the European and other global companies remain largely compliant[25] with the existing and proposed U.S. sanctions, since the prospects of the U.S. secondary sanctions, e.g., "sanctions for sanctions violation" can be devastating for any company operating on a global market.[26]

With Joe Biden elected as a new President of the U.S. and Democrats taking over the White House, many experts fear that the U.S. pressure on Russia is likely to increase exponentially. Indeed, Biden advocated for an increased pressure on Russia, with regard to Russian threat to the strategic interests of the U.S. and its allies.[27] Additionally, Biden will strongly support the U.S. allies, both in the EU and post-Soviet space, thus limiting the options for Russia's foreign policy. Finally, Biden strongly advocated for an increased support for Russian civil society, a much frustrating topic for the Russian political elites. Therefore, the new administration is likely to increase the pressure on Russia with regards to human rights issues, as well as the situation in the Ukraine and post-Soviet space.

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[21] Council Decision 2014/512/CFSP of 31 July 2014 concerning restrictive measures in view of Russia's actions destabilising the situation in Ukraine, Official Journal of the European Union, July 31, 2014, https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014D0512&from=EN.

[22] Council Decision (CFSP) 2019/86 of 21 January 2019 amending Decision (CFSP) 2018/1544 concerning restrictive measures against the proliferation and use of chemical weapons, Official Journal of the European Union, January 21, 2019, https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32019D0086&from=EN.

[23] Council Implementing Regulation (EU) 2020/1480 of 14 October 2020 implementing Regulation (EU) 2018/1542 concerning restrictive measures against the proliferation and use of chemical weapons, Official Journal of the European Union, October 14, 2020, https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32020R1480&from=EN.

[24] Council Decision (CFSP) 2019/797 of 17 May 2019 concerning restrictive measures against cyber-attacks threatening the Union or its Member States, Official Journal of the European Union, May 17, 2019, https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32019D0797&from=GA.

[25] Timofeev (2019).

[26] Drezner (2015).

[27] Biden (2020).

However, despite Biden's criticism toward both Russian leadership and Russian foreign policy, he remains a strong proponent of multilateralism, as well as international institutions and regimes. Unlike Trump administration, which put great efforts to dismantle the existing arms control system, Biden is likely to extend the new START treaty, and also launch a new round of Russia-American consultations on strategic stability issues.[28] Another area of potential cooperation lies within the consultations on climate change and alternative energy sources. Finally, Biden will likely decrease the U.S. pressure against Russian-European "Nord Stream-2" pipeline project.

4 China Under Pressure of the West

The deepening global confrontation between China and the U.S. emerges as an inherent characteristic of international relations for the years to come.

Initially, the U.S. advocated globalization and defended free trade. It played an important role in the formation of the World Trade Organization and the International Monetary Fund and for a long time were fully engaged in their activities. However, as China strengthened its global role, the U.S.' leading position in international trade began to weaken. According to the latest research of the World Bank, China's gross domestic product (GDP) first overtook the U.S.'s in purchasing power parity (PPP) terms in 2017.[29] At the same time, the growth of external debt and unemployment, the deteriorating position of the middle class and the crisis in many industries in the U.S. have led to a growing dissatisfaction in the country with the former, liberal principles of trade.[30]

In addition to significant economic growth, China has also significantly increased its influence on the political arena. In the post-bipolar world, international organizations such as the SCO and BRICS have become the platforms where Beijing can defend its own interests and maintain a dialogue with its partners. The SCO itself is the result of the efforts of China and neighboring states to create a new model of security, interstate and interregional interaction. Some Chinese experts even call it an invention of the Chinese diplomacy.[31] The accession of India and Pakistan to the Organization in 2017, as well as the interest shown by other countries, only strengthened the influence of the SCO and the leading role of China within the organization, and thus threatening the U.S.'s dominance in the region.

The confrontational potential between the two countries has been growing in the military and strategic spheres as well. The military reform in the PRC, proclaimed in

[28] Trenin (2020).

[29] "Is China overtaking the US as a financial and economic power?," *the Diplomat*, May 29, 2020, https://www.theguardian.com/business/2020/may/29/is-china-overtaking-the-us-as-a-financial-and-economic-power.

[30] Vinogradov, et al. (2019).

[31] Dapeng (2020).

2015, is a large-scale and profound initiative that is crucial for the Chinese foreign policy, where the military component will apparently play a more prominent role.[32] An important event to demonstrate its growing military power was the Parade dedicated to the 70th anniversary of the end of World War II. It involved more than 12,000 troops, 500 pieces of military equipment and 200 aircrafts, representing what military officials said were the Chinese military's most cutting-edge technology.[33] Since then, the number and equipment of the People's Liberation Army continued to grow and at the moment the PRC has the largest armed forces in the world by active duty military personnel, with about 2.18 active soldiers.[34] The U.S.'s withdrawal from the Intermediate-Range Nuclear Forces Treaty under the pretext of alleged Russia's violations might also be explained by the U.S.'s concerns about China's growing military power. It is worth mentioning that Washington urges Moscow to involve Beijing in the arms control system, though forming such an architecture with China's participation appears an unrealistic prospect.

To respond to these challenges coming from China, the U.S. administration has adopted a competitive approach to the PRC.[35] Moreover, in the National Security Strategy of the U.S. of America of 2017 China was called a "revisionist power" along with Russia.[36] The U.S.'s competitive approach to China is defined by two main objectives: improvement of the resiliency of the U.S. institutions, alliances and partnerships, and compelling Beijing to cease or reduce actions harmful to the U.S.' vital, national interests and those of their allies and partners.[37]

Controversies primarily manifested in the economic realm resulted in a large-scale trade war. It started with 2018 increase in the U.S. import tariffs on solar energy complex goods, what became a sensitive measure against China being the world leader in solar production. China's ability to retaliate against U.S. trade measures was more limited due to the fact that it does not import enough goods from the U.S. to match their import tariffs.[38] An additional package of measures to increase tariffs on goods totaling $200 billion first has been postponed to go into effect in 2019 finally formalizing the state of a trade war between countries. The main goal

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[32] Kokoshin (2017).

[33] "China Stages a Massive Military Parade to Commemorate the End of World War II," *the Atlantic*, September 3, 2015, https://www.theatlantic.com/photo/2015/09/china-stages-a-massive-military-parade-to-commemorate-the-end-of-world-war-ii/403627/.

[34] "The biggest armies in the world ranked by active military personnel in 2020," *Statista*, https://www.statista.com/statistics/264443/the-worlds-largest-armies-based-on-active-force-level/#:~:text=In%202020%2C%20China%20had%20the,one%20million%20active%20military%20personnel.

[35] "United States Strategic Approach to the People's Republic of China," *the White House*, https://www.whitehouse.gov/wp-content/uploads/2020/05/U.S.-Strategic-Approach-to-The-Peoples-Republic-of-China-Report-5.20.20.pdf.

[36] "Trump's National Security Strategy and China," *ChinaFile*, December 19, 2017, https://www.chinafile.com/conversation/trumps-national-security-strategy-and-china.

[37] "United States Strategic Approach to the People's Republic of China," *the White House*, https://www.whitehouse.gov/wp-content/uploads/2020/05/U.S.-Strategic-Approach-to-The-Peoples-Republic-of-China-Report-5.20.20.pdf.

[38] Herrero (2019).

of such measures was to smooth out the trade imbalance with China. The resulting pressure from the U.S. led to a need to discuss the issue. The trade deal, according to which China has pledged to purchase goods and services from the U.S. in the amount of $200 billion until 2021, was finally concluded in January 2020. Given that it is planned to purchase agricultural and energy products, the question arises as to how much this agreement will be beneficial for the U.S.[39]

Technology and innovation also became an area of intense competition between the U.S. and China. Washington uses various non-tariff barriers and sanctions seeking to restrict Beijing's access to the American technology sector and curb accelerated development of Chinese tech companies in order to prevent China from reaching a new level in the global technological race. In early 2019, the U.S. Department of Justice brought criminal charges against China's tech giant Huawei accusing its chief financial officer, Meng Wanzhou, of bank fraud, obstruction of justice and theft of technology.[40] By early fall of 2020, the U.S. Department of Commerce announced prohibitions on transactions relating to Chinese mobile applications *WeChat* and *TikTok* in order to protect the national security, foreign policy and the economy of the U.S.[41] China is the world leader in R&D investment and patents, making it a serious competitor in this area. Another reason the U.S. government has sought to restrict Chinese commercial investment is the mechanism for transferring people and technology between the military and civilian sectors in China.[42] Therefore, the development of high technologies in China is viewed by the U.S. not only from the economic point of view, but also as a national security problem.

Beijing's growing regional influence also causes Washington's concern. The U.S.'s Indo-Pacific strategy and its attempts to form a strategic contour in the region based on India, Japan and Australia seem to be mainly aimed at containing China. In 2017, then the secretary of state Rex Tillersone in his speech developed the concept of a Free and Open Indo-Pacific put forward by the Japanese Prime Minister Shinzo Abe, supporting the idea of freedom of navigation and the rule of law in the region, at the same time naming China as the main threat to achieving these goals. Subsequent statements by representatives of the Trump's administration, as well as official documents including the National Security Strategy and the National Defense Strategy, have finally established Beijing as an antagonist to the development of the Indo-Pacific concept.[43]

Human rights and ideological issues are also used by Washington to fuel the confrontation. In 2020, it has significantly exacerbated and accelerated against the background of COVID-19. Washington directly blames Beijing for inadequate

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[39] "What's in (and Not in) the U.S.-China Trade Deal," *the New York Times*, January 15, 2020, https://www.nytimes.com/2020/01/15/business/economy/china-trade-deal-text.html.

[40] "US files charges against China's Huawei and CFO Meng Wanzhou," *BBC*, January 29, 2019, https://www.bbc.com/news/world-us-canada-47036515.

[41] "Commerce Department Prohibits WeChat and TikTok Transactions to Protect the National Security of the United States," *U.S. Department of Commerce*, https://www.commerce.gov/news/press-releases/2020/09/commerce-department-prohibits-wechat-and-tiktok-transactions-protect.

[42] Schoff and Ito (2019).

[43] Szechenyi and Hosoya (2019).

control of the disease that led to the pandemic, and Donald Trump even mentioned alleged lab origin of the virus.[44] In his statement issued on the occasion of the Captive Nations Week, the president condemned the Chinese government for preventing the transmission of timely and accurate information about the pandemic among its population. China has also been accused of taking advantage of the pandemic to suppress freedom of people in Hong Kong.[45]

The U.S. is also deeply concerned about the situation on preserving human rights in Xinjiang and Tibet, especially of those belonging to religious and ethnic minorities. On Xinjiang, the Chinese government is often accused by the West in human rights violation, e.g., creation of "political re-education" camps and using force labor as well as imposing restrictions on freedom of religion and freedoms of movement, association and expression.[46] In 2020, the U.S. President Donald Trump even signed the Uygur Human Rights Policy Act that implies sanctions against Chinese officials responsible for alleged "repression of human rights" in Xinjiang,[47] and later some local goods were banned in the U.S. for being produced using slave labor.[48]

Against this background, the Chinese diplomacy is gaining a more assertive character. China is firmly opposed to American interference in its internal affairs, be it Xinjiang or Taiwan, to which the U.S. provides diplomatic and military support. Beijing believes that Taipei, being an integral part of the territory of China, cannot independently establish ties with other states. Moreover, according to Anti-Secession Law adopted in 2005, in case of threat of secession of Taiwan, China may employ non-peaceful means to protect its sovereignty and territorial integrity.[49]

Thus, the confrontational trend is gradually acquiring a self-sustaining character. There are assessments that the escalation of the Sino-American confrontation may lead to a new global "bipolarity," though other experts suggest that China may pursue a more cautious foreign policy not willing to risk large-scale confrontation. After the long-awaited signing of the Regional Comprehensive Economic Partnership (RCEP), Beijing has yet another multilateral instrument for projecting its influence.[50] In this

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[44] "Coronavirus: Trump stands by China lab origin theory for virus," *BBC News*, May 1, 2020, https://www.bbc.com/news/world-us-canada-52496098.

[45] "Proclamation on Captive Nations Week, 2020," *the White House*, July 17, 2020, https://www.whitehouse.gov/presidential-actions/proclamation-captive-nations-week-2020/#:~:text=President%20Dwight%20D.,fundamental%20rights%20by%20their%20governments.

[46] "Joint Statement on the Human Rights Situation in Xinjiang and the Recent Developments in Hong Kong, Delivered by Germany on Behalf of 39 Countries," *United States Mission to the United Nations*, October 6, 2020, https://usun.usmission.gov/joint-statement-on-the-human-rights-situation-in-xinjiang-and-the-recent-developments-in-hong-kong-delivered-by-germany-on-behalf-of-39-countries/.

[47] "U.S. intervention in Xinjiang further strains China-U.S. relations," *CGTN*, June 22, 2020, https://news.cgtn.com/news/2020-06-22/U-S-intervention-in-Xinjiang-further-strains-China-U-S-relations-RvG59kdmI8/index.html.

[48] "U.S. bans cotton imports from China producer XPCC citing Xinjiang 'slave labor'," *Taiwan News*, December 3, 2020, https://www.taiwannews.com.tw/en/news/4068263.

[49] "Anti-Secession Law (Full text) (03/15/05)," *Embassy of the People's Republic of China to the United States of America*, http://www.china-embassy.org/eng/zt/999999999/t187406.htm.

[50] Korolev and Kalachigin (2020).

situation, it is doubtful whether the newly elected president maintains the confrontational tone and tough policies of his predecessor. The Chinese factor figured prominently in the 2020 Presidential election campaign in the U.S., and Joe Biden has already declared his greater dedication to multilateral initiatives. Now the question arises of how the U.S. administration will react to the possible strengthening of its main rival.

5 Opportunities and Constraints in Russia–China Partnership

Heightening pressure from the West motivates Moscow and Beijing to develop closer collaboration on all fronts. Since the crisis in its relations with the U.S., the EU and allied states broke out in 2014, Russia has started paying increasing attention to China. Beijing, which did not condemn Russian policy and unequivocally opposed unilateral sanctions, confirmed its reliability as a partner in the international arena.[51] For example, on the Crimea issue, China abstained while voting on resolutions condemning the referendum and changes in the Peninsula's status in the UN Security Council and General Assembly.[52] Against the background of the anti-Russian sanctions, China is also seen as a promising source of investment and technologies needed for Russia's development, as well as a major market for main Russian commodity—energy resources.

It is worth noting that in May 2014, at the height of tensions related to the Ukrainian crisis, Russia and China held joint exercises in the East China Sea. Vladimir Putin visited Beijing and brought home an impressive package of deals. Notably, Russian energy giant Gazprom and Chinese CNPC signed a major 30-year contract to provide 38bn cubic meters of Russian natural gas annually.[53] Though Russia was planning to diversify its energy partnerships even before the crisis given EU's bid to reduce its dependence on Russian supplies, the threat of sanctions expedited this process.[54] There were doubts concerning the feasibility of the 2014 gas deals which were seen as a move to show the West that Russia has alternative partners. In reality, they stimulated the building of a Russia–China pipeline conceived as early as in 1990s.

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[51] "China Criticizes 'Unilateral' U.S. Sanctions against Iran," *Voice of America News*, January 4, 2012, http://blogs.voanews.com/breaking-news/2012/01/04/china-criticizes-unilateral-us-sanctions-against-iran/.

[52] "UN Security Council action on Crimea referendum blocked," *UN News*, March 15, 2014, https://news.un.org/en/story/2014/03/464002-un-security-council-action-crimea-referendum-blocked;

"General Assembly Adopts Resolution Calling upon States Not to Recognize Changes in Status of Crimea Region," United Nations, March 27, 2014, http://www.un.org/press/en/2014/ga11493.doc.htm.

[53] Luhn and Macalister (2014).

[54] Likhachev and Westphal (2017).

The Power of Siberia pipeline, a major joint infrastructural project, was eventually made operational in 2019.[55]

Overall, since 2014, the parties have managed to achieve remarkable progress in of trade and economic ties: China's share in Russian foreign trade increased to 16.6%, trade turnover in 2019 exceeded $110 billion, and a number of large-scale transactions were made. They include, for example, the acquisition by Chinese investors of an almost 30% stake in the Yamal LNG project (CNPC and the Silk Road Fund acquired 20% and 9.9% respectively), with LNG already being shipped to China. China has become a leader among non-CIS countries for inbound tourism to Russia.

At the same time, initial Russia's hopes for breakthroughs in economic cooperation have not been fulfilled. Russian exports rely heavily on natural resources with a minor share of high value-added goods. Mutual investments remain limited, and many projects have been announced but not implemented. One of the cases in point is the Moscow–Kazan high-speed railway project with Chinese investments which has been discussed since 2014 but never operationalized. Out of 70 key investment projects agreed at the highest level, only 11 completed and 15 are being implemented.[56]

For Chinese businesses, projects in Russia often do not seem profitable, and Russian business climate is seen as unfavorable. In turn, conditions offered by Chinese investors involving control over projects and obligatory purchases of Chinese equipment are often perceived by Russian businesses as unacceptable. Moreover, effects of the U.S.'s secondary sanctions could be felt even in Russia–China economic collaboration as in some cases Chinese banks and businesses see Russian partners (even not sanctioned ones) as problematic and are not willing to risk being cut off from the U.S.'s market and global finance.

The trade war between the U.S. and China has created additional impetuses for bilateral trade collaboration. For instance, Russian businesses are willing to fill the space left free during the decoupling process, for example, in soybean shipments to China. However, real growth potential is put into question by Russian limited capacities to grow additional crops as well as by the trade deal with the U.S. under which China engaged to buy American products. As China–U.S. relations deteriorate, new trade niches and opportunities are bound to emerge, however, global recession amid coronavirus pandemic will complicate harnessing this potential.

Global Sino-American technological rivalry and restrictions on collaboration with China in science and technology have stimulated Beijing's interest in closer ties with Russia boasting sound scientific potential since the Soviet times. The two partners work together on a number of hi-tech projects including long-range wide-body aircraft CR929 and joint use of GLONASS and BeiDou satellite navigation systems. Since 2018, the number of such initiatives and commercial contracts has visibly grown. Noteworthy among them are deals by Russian MTS and Vympelcom to

[55] "Power of Siberia," Gazprom, accessed November 2, 2020, https://www.gazprom.ru/projects/power-of-siberia/.

[56] Morgulov, "Russia–China relations on a new historic stage."

collaborate with Huawei in 5G development in Russia.[57] They came at a time when the U.S. blacklisted the corporation, and European countries are increasingly wary to base their networks on Huawei technologies. Trends for greater institutionalization of collaboration, cooperation in innovation infrastructure building and for growing number of contracts for technology development in Russia have also emerged, with a general focus on digital.[58]

With Russia's fundamental and applied science potential and China's implementation and commercialization experiences, the space for bilateral collaboration in technologies is vast. Ties in science and technology are likely to become one of the drivers of bilateral partnership for the years to come. Nevertheless, neither Russia nor China at the current stage can substitute all other partners, especially the Western ones.

Moreover, Russia and China share the eagerness to reduce their dependence on the U.S.-dominated global financial system. In addition to their general opposition to the unipolar trends in international economy and finance, this willingness is motivated by the fact that the efficiency of American unilateral sanctions is underpinned by the crucial role of the U.S. dollar.

Russia–China collaboration on the financial front is multi-fold. First, Moscow and Beijing work on abandoning the U.S. dollar and increasing the share of rouble and renminbi in mutual payments. In 2019, they concluded an intergovernmental agreement on clearing and payments. Second, the two states are eager to create their own alternatives to the globally used SWIFT and connect their financial infrastructures. For instance, agreements on using the China International Payments System and Russian System for the Transfer of Financial Messages were reached. Third, they seek to connect the national payment systems. Moreover, Russian Central Bank is diversifying foreign exchange reserves increasing the share of renminbi. For instance, in March 2019, renminbi share in Central Bank's reserved amounted to 14.2%.[59]

Overall, the financial collaboration has so far reaped only small-scale results. This is partly due to the fact that the two currencies as well as Russia's and China's payment systems enjoy limited international use (Chinese ones are much more widely used than Russian, but still incomparable to the Western ones). Moreover, trade in national currencies incurs risks of international markets fluctuations. Both Moscow and Beijing understand the importance of resilience of bilateral financial infrastructure to externals shocks such as economic sanctions and will continue gradually solidifying its basis.

The most impressive progress can be traced in the strategic, military and military hardware areas. Both Russia and China are in a systemic conflict with the U.S. which is not likely to be settled in the foreseeable future. The two states have been repeatedly

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57 "Huawei zapuskaet teckhnologiyu 5G v Rossii" [Huawei launches 5G technology in Russia], *Sputnik*, June 6, 2019, https://ee.sputniknews.ru/technologies/20190606/16596649/Huawei-zapuskaet-tekhnologia-5G-Russia.html

"Rossiiski 5G sdelayut v Kitae" [Russian 5G will be made in China], *Kommersant*, September 11, 2020, https://www.kommersant.ru/doc/4485102.

58 Luzyanin et al. (2020).

59 Tkachev and Kaliukov (2019).

called main security threats in U.S.'s strategic documents,[60] and Washington sees in Beijing a competitor for global influence. Common challenges urge Moscow and Beijing to coordinate more closely strategically. To this end, multiple regular consultations mechanisms have been established, including such a unique format as the dialogue between the Russian Presidential Administration and the Office of the CPC Central Committee. Russian and Chinese security councils and general staffs also interact regularly.

Russia and China practice regular joint exercises. Chinese PLA's involvement in Russian strategic command post exercises (Vostok-2018, Center-2019 and Kavkaz-2020) marks further rapprochement between the two states. Interestingly, Moscow and Beijing held joint drills in the regions, strategically important for both of them—the Baltic and the South China Sea, respectively. These moves served as an important demonstration of the capabilities for their opponents. In 2019, the two states responded to heightened regional tensions against the background of the U.S.–China confrontation by the first-ever joint air patrol in the Pacific region.[61]

Military-technical cooperation also surged after the Ukrainian crisis. Russia is China's main hardware and technologies supplier.[62] Sales of S-400 missile systems and Su-35 fighter jets figure among most prominent deals. Interestingly, these two deals served as grounds for the U.S.'s sanctions against the Equipment Development Department of the China's Central Military Commission as well as its director.[63] American restrictions, though, cannot limit Russia–China collaboration which has already transitioned to the most sensitive areas. In 2019, it was announced that Russia assisted China in developing an early warning radar system.[64] As new technology-based weapons are being designed in the U.S. and its allies, experts predict that Moscow and Beijing might also initiate joint development projects.[65]

At the same time, certain Russian frustration pertains to reverse engineering by the Chinese—a challenge especially coming to the light given that China has surpassed Russia as global arms exporter, according to SIPRI.[66] However, this concern is unlikely to create major discord between the two partners.[67]

Against the background of political declarations of close partnership and practical progresses, positive public opinion also started solidifying. For example, in 2019 Pew poll, 71% of Russian respondents viewed China favorably, the highest result

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[60] "National Counterintelligence strategy of the United States of America 2020–2022: Executive Summary," Office of the Director of National Intelligence, https://www.dni.gov/files/NCSC/documents/features/20200205-National_CI_Strategy_2020_2022_Executive_Summary.pdf.

[61] Gady (2019).

[62] "Trade Registers," Stockholm International Peace Research Institute, accessed November 5, 2020, https://armstrade.sipri.org/armstrade/html/export_values.php.

[63] Wilkinson (2018).

[64] Luzyanin et al. (2020).

[65] Kashin (2019).

[66] "New SIPRI data reveals scale of Chinese arms industry," Stockholm International Peace Research Institute, January 27, 2020, https://www.sipri.org/media/press-release/2020/new-sipri-data-reveals-scale-chinese-arms-industry.

[67] Simes (2019).

globally.[68] At the initial stages of the coronavirus pandemic, some negative reactions to Chinese citizens were observed in Russia, but they are unlikely to pose grave risks for the partnership. From this point of view, potential negative trends in Chinese' attitudes to Russia because of the high rate of COVID infection in the country are more realistic, though Chinese media tend to cover the situation in Russia favorably thus reducing those risks. Moscow and Beijing appreciate the importance of firm public support for the partnership and work on creating positive images in the media and promoting mutual understanding through cultural events.

6 Limitations of the Rapprochement Between Moscow and Beijing

Progress made by Moscow and Beijing, especially on the strategic and military fronts, prompted some experts to see Russia–China partnership as a de facto or quasi-alliance.[69] An opinion that Russia and China are allies, though not militarily, but strategically was voiced by Vladimir Putin himself in 2019.[70] However, in 2020 the Russian president claimed there is no need for alliance at the current stage though it cannot be ruled out in future.[71] At the official level, rejection of alliances has traditionally been a basic principle of the modern bilateral partnership, and this position is not likely to change in the near future despite the exacerbation of common threats, particularly West-related ones. This principled view relies on a number of concerns. Moscow and Beijing learned from the own history of Soviet-time friendship that forming alliances could not stop a split, and the inherent division of partners into "senior" and "junior," in fact, provokes confrontation. Moreover, the position is intertwined with Russian and Chinese policies toward the West whereby they staunchly oppose the expansion of the U.S.'s alliance system in their neighborhood.

Despite close coordination with China, strategic autonomy and independent foreign policy remain top priority for Russia. The two states' positions on many international issues coincide, but this entente has clear limits. For example, Russia does not support China's territorial claims in the South China Sea and continues developing partnerships with other players in the region, for example Vietnam.[72] Similarly, while refraining from condemning Russia's policies, China has never recognized the accession of Crimea to Russia.

[68] Silver et al. (2019).

[69] Luzyanin et al., *Russia–China Dialogue: The 2020 Model*, 43–46.

[70] "Putin zayavil chto Rossia i Kitai ne sozdayut voyennykh soyuzov" [Putin claimed that Russia and China do not form military alliances], *RIA Novosti* [RIA News], June 7, 2019, https://ria.ru/20190607/1555382899.html.

[71] "Russia-China Military Alliance 'Quite Possible,' Putin Says," *The Moscow Times*, October 23, 2020, https://www.themoscowtimes.com/2020/10/23/russia-china-military-alliance-quite-possible-putin-says-a71834.

[72] Lavrov (2015).

The limits of the partnership can be equally clearly observed in bilateral matters. For example, Moscow avoids excessive debts to Chinese counterparts and does not allow Chinese control over strategic assets.[73]

That being said, an asymmetry is observed in the Russia–China strategic partnership which is dictated by the sizes of the two economies. For example, China consistently is Russia's first trading partner, while Russia ranked only 10th among China's counterparts in 2019. Experts predict that this asymmetry will only grow in the near future amid global recession and coronavirus pandemic, increasing Russia's dependence on China.[74] Thus, according to the IMF, while Russian GDP is expected to drop by 4.1% in 2020 against the background of world economy falling by 4.4%, Chinese economy will grow 1.9 per cent.[75] Moreover, growing U.S.–China rivalry that might lead to a global split can bring Moscow and Beijing even closer together. Amid crisis with the West, Moscow will likely find itself in China's strategic, technologic and economic camp.

Limitations on strategic options and growing dependence on the bigger partner are not a favorable scenario for Moscow. Preserving strategic autonomy while maintaining close but equal partnership with Beijing thus becomes priority task for Moscow for the years to come. Diversifying and reinforcing ties with other foreign partners as well as building up its own economic and innovational potential would contribute to this task. However, Russia's opportunities to build stronger partnerships are significantly constrained, not the least due to tensions with the West.

Even a limited Russian-American rapprochement in order to balance China is not likely in the foreseeable future due to the highly confrontational nature of the relations. "Russian threat" has become a topic of domestic policy with strong bipartisan consensus and given the high polarization of the U.S. political elites, restoring the relations between the two countries is unlikely. Moreover, Washington has limited options to offer Moscow in exchange for breaking ties with Beijing, due to the incomparable volumes of trade and the fact that reconciling the strategic interests of both countries will need a strong political will from both sides.

The EU, similarly to Russia, does not stand to gain from growing U.S.–China rivalry and would appear a promising partner for Moscow on this front. Relations between Russia and the EU are less confrontational, but mutual trust remains at a very low level. In 2020, opportunities of closer collaboration were reduced by Navalny case-related crisis. The EU role as a potential partner in the international arena is undermined by European countries' limited strategic autonomy from the U.S. Still, the EU remains an important economic partner: As a whole, it by large surpasses China as Russia's trading partner, with bilateral turnover amounting to $277.8 billion. However, EU sanctions and effects of the U.S. secondary sanctions hamper comprehensive beneficial collaboration. The impossibility to isolate the economy from politics in Russia–EU relations has been proven multiple times. One of the cases in point

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[73] Kashin (2019).

[74] Gabuev and Umarov (2020).

[75] "World Economic Outlook," International Monetary Fund, October 2020, https://www.imf.org/en/Publications/WEO/Issues/2020/09/30/world-economic-outlook-october-2020.

is the U.S.'s constant push to cancel the flagship Nord Stream-2 gas pipeline project connecting Russia and EU, for example, halting the project was discussed as a potential EU's response to the Navalny affair.[76] Moreover, bilateral trade has already been badly hit by the pandemic (down 18.3% year on year in January–August 2020). All in all, Europe's preoccupation with its internal problems amid coronavirus pandemic as well as deep mutual distrust makes Russia–EU rapprochement unlikely in the near term.

Japan and the Republic of Korea have also been seen as promising partners by Russia, especially in the economic area and in the development of the Russian Far East. However, despite the sides' best efforts, successes on this front have been very limited due to the economy structures, lack of understanding and partners' discontent with Russian business environment. Strategically, Tokyo and Seoul do not generate Moscow's keen interest as Japan and South Korea are the key elements of the U.S.'s alliance system in Asia. Russia–Japan bilateral relations are additionally complicated by unresolved territorial disputes since World War II.

Finally, since the Soviet times Russia enjoys close strategic partnership with another Asian power—India. The two states do not have any unresolved disputes; they did not condemn each other's sensitive external and internal decisions and share similar views on fundamental foreign policy issues. India is also an important partner for Russia in arms trade. Achieving practical results, though, has proven rather difficult for the two states. The absence of common border and difficulties with transportation coupled with lack of contacts and understanding at the business level make boosting economic ties difficult. In 2019, Russia–India trade reached only $11.2 billion, almost ten times less than Russia–China trade. In the strategic realm, the interests of the two countries also started to diverge as India drifts closer to the U.S., and Russia forms a stronger partnership with China, India's regional competitor. Overcoming these divergences will serve both Moscow's and Delhi's best interests, but this task is challenging, especially so as tensions among the U.S. and China.

Therefore, Russia explores opportunities for closer collaboration with a number of international partners, but currently none of them can be an alternative to China both economically and strategically. As China–U.S. and Russia–U.S. relations deteriorate, constructive collaboration space for Russia may further shrink.

7 Russia–China Partnership on the Eurasian Continent

The twenty-first century has seen a rise in multilateral economic and connectivity initiatives spanning Eurasian continent and beyond. Russia and China have taken the lead and put forth their own ambitious projects. Strategic rapprochement prompts the two Eurasian powers to look closer at the opportunities for synergy.

[76] Mackinnon (2020).

Multilateral collaboration between Moscow and Beijing in the Eurasian space commenced with the informal "Shanghai Five" consisting of Russia, China, Kazakhstan, Kyrgyzstan and Tajikistan. In 2001, it evolved in the Shanghai Collaboration Organization (SCO). The grouping was formed as a result of normalization between Russia and other post-Soviet states, and China. Initially, its focus was on security and anti-terrorism issues but later broadened to include economy, people-to-people ties, health and other issues, though with less prominent results. Moscow and Beijing have always been the locomotives of the organization, using the platform to coordinate interests in their common neighborhood—Central Asia.

In 2013, during his visits to Kazakhstan and Indonesia, Chinese President Xi Jinping launched the flagship Belt and Road Initiative (BRI, then called "One Belt–One Road"). The initiative includes two main components—the land-based Silk Road Economic Belt and the 21st Century Maritime Silk Road, and supposes closer political coordination, infrastructure building, unimpeded trade, financial cooperation and fostering people-to-people ties with participating countries (more than 70 or more than 130, according to different estimations).[77] The BRI is a collection of separate bilateral and multilateral projects with Chinese investments, different in sizes and stages of implementation, rather than a comprehensive vision or a rigid organizational framework.

Russia has traditionally sought to reinforce economic ties with its neighbors, fellow former Soviet republics, in order not to lose the synergetic potential for common prosperity based on linkages remaining from the USSR. Engagements on the economic front included Eurasian Economic Community, the Customs Union and in 2015, led to the establishment of the Eurasian Economic Union (EAEU). Unlike BRI, EAEU is a formal regional organization comprising Russia, Kazakhstan, Belarus, Kyrgyzstan and Armenia, and entailing free movement of goods, services, finances and people as well as common policies in a wide range of areas.

Later on, Russia's view of regional integration priorities broadened and evolved: A notion of Greater Eurasia has been gradually introduced in Russian discourse as opposed to "Eurasia" traditionally encompassing only the post-Soviet space. In 2016, Russian President Vladimir Putin announced an ambitious initiative of the Great Eurasian Partnership as a flexible and open network of regional partnerships, based, first and foremost, the EAEU, the SCO, the ASEAN and other players. This megaproject is still in initial stages of conceptualization.

Just as the bilateral agenda, Russia–China collaboration in Eurasia is based on objective factors, and the mutual interest is additionally motivated in the context of Russia's and China's tensions with the West.

Here, geographical factor plays an important role. First, Russia and China as neighbors are interested in stability and prosperity in their common neighborhood, Central Asia. Therefore, collaboration on this front is natural in order to ensure their

[77] Belt and Road Initiative, accessed on November 12, 2020, https://www.beltroad-initiative.com/belt-and-road/;

"List of countries that have signed cooperation documents with China to jointly build the "Belt and Road," Belt and Road Portal, April 12, 2019, https://www.yidaiyilu.gov.cn/info/iList.jsp?tm_id=126&cat_id=10122&info_id=77298.

own security. Second, Russia's position between Europe and Asia makes it a vital partner in connectivity projects linking two mega regions, especially given that China is exploring new opportunities of transportation to Europe.

This mutuality of interests is underpinned by Russia's drastic need for infrastructure modernization throughout the country and economic benefits brought by the development of its transit potential. Moreover, any connectivity or economic initiative spanning Eurasian continent cannot be fully implemented without both Russia and China as the biggest countries territory-wise, major military powers and large energy exporter and importer.

Russia–China collaboration in Eurasia based on the natural complementarity of interests was given a further boost in context of the pressure from the West. Russian expert and governmental circles were initially quite wary of the BRI fearing that it might interfere with Russia's interests in its neighborhood. Damaged relations with the West and resulting growth in attention to the East made Moscow more receptive of Beijing's initiative encompassing the fast-growing Asian partners.[78] Sanctions risks and the need for new sources of investment only enhanced interest in collaboration, in multilateral framework as much as in bilateral. Beyond that, general frustration in earlier promoted Greater Europe concept due to these factors led to the conceptualization of "Greater Eurasia" underlying the Great Eurasian Partnership which now serves as the framework of Russia's Eurasian endeavors. Last, but not the least, Russia's and China's opposition to unipolarity and rising confrontation with the U.S. add an important dimension to Moscow–Beijing collaboration in Eurasia: the willingness to provide alternatives and advocate a more multipolar regional and global systems.

Interestingly, initiatives of both Russia and China come under fire from the West. The BRI is perceived by the U.S. and its allies in terms of China's alleged willingness to gain political and military foothold in participating countries, infringing on their sovereignty with the help of excessive debt burden in joint projects, and thus achieve dominance in the mega region. Similarly enough, EAEU has been in some cases criticized by Western countries as Russia's attempt to exert influence throughout post-Soviet space and re-create a "sphere of influence". In a similar vein, the SCO has been seen as a joint attempt by Moscow and Beijing to impose their views on smaller Eurasian countries.

Strategic rapprochement resulted in a number of practical achievements in Russia–China collaboration in Eurasia. In 2015, the crucial decision to co-develop the Eurasian economic Union and the Silk Road Economic Belt was made.[79] Russia did not formally join the BRI but nevertheless has shown consistent support for Chinese

[78] Go (2017).

[79] "Sovmestnoye zayavleniye Rossiyskoy Federatsii i Kitayskoy Narodnoy Respubliki o sotrudnichestve po sopryazheniyu stroitel'stva Yevraziyskogo ekonomicheskogo soyuza i Ekonomicheskogo poyasa Shelkovogo puti" [Joint statement of the Russian Federation and the People's Republic of China on cooperation in linking the construction of the Eurasian Economic Union and the Silk Road Economic Belt], President of Russia, May 8, 2015, http://kremlin.ru/supplement/4971.

initiative. For example, President Putin took part in both BRI Forums for International Cooperation.[80] In turn, China endorsed Russia's Great Eurasian Partnership proposal.[81]

The co-development of the EAEU and SREB is said to be the Partnership's key element. It moved further ahead with the signing of the Agreement on Economic and Trade Cooperation between EAEU and its member states, and China in 2018 (came into force in 2019).[82] The agreement is non-preferential and does not stipulate for free trade, but it is aimed at simplifying procedures and fostering transparency in a wide range of areas, for example, customs and transportation. In October 2020, the first meeting of EAEU–China Commission on Implementation of the Agreement was held. The parties are working on a roadmap listing priority investment projects as part of the co-development.[83]

In recent years, collaboration in the Russian Arctic is also high on the agenda of Russian-Chinese discussions on Eurasia, notably in terms of connecting Chinese Polar Silk Road and Russian Northern Sea Route where potential for commercial navigation has grown with the melting of the ice. China is investing in port infrastructure in Russian Arctic.[84] Projects of natural resources exploration in the region are also seen through the "Eurasian collaboration" lens: Chinese Silk Road Fund investments in Yamal LNG attest to this.[85]

Though these initiatives are among both states' priorities and EAEU–BRI co-development figures prominently on their agenda, it has not yielded any significant results so far. Some ambitious multilateral projects have fallen behind or stalled, with the Western Europe–Western China Highway being a case in point (China's and Kazakhstan's sections were built, but Russian part is still in the works).

Moreover, most EAEU member states prefer to enter in bilateral agreements with China. Though these are often presented as achievements of the co-development of the two initiatives, in reality they benefit only the participating countries. EAEU now lacks strategic synergetic vision necessary for mutually beneficial alignment of

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80 "Belt and Road Forum for International Cooperation," President of Russia, April 26, 2019, http://en.kremlin.ru/events/president/news/60378.

81 "Press statements following Russian-Chinese talks," President of Russia, July 4, 2017, http://en.kremlin.ru/events/president/news/54979.

82 "Agreement on economic and trade cooperation between the Eurasian Economic Union and its member states, of the one part, and the People's Republic of China, of the other part," Eurasian Economic Commission, accessed on November 11, 2020, http://www.eurasiancommission.org/ru/act/trade/dotp/sogl_torg/Documents/%D0%A1%D0%BE%D0%B3%D0%BB%D0%B0%D1%88%D0%B5%D0%BD%D0%B8%D0%B5%20%D1%81%20%D0%9A%D0%B8%D1%82%D0%B0%D0%B5%D0%BC/%D0%A2%D0%B5%D0%BA%D1%81%D1%82%20%D0%B0%D0%BD%D0%B3%D0%B8%D0%B9%D1%81%D0%BA%D0%B8%D0%B9%20(EAEU%20alternate)%20final.pdf.

83 "Andrey Slepnev proposed to elaborate road map for developing trade and economic cooperation between EAEU and China," Eurasian Economic Commission, October 30, 2020, http://www.eurasiancommission.org/en/nae/news/Pages/30-10-2020-01.aspx.

84 Zhang (2020).

85 "About the project," Yamal LNG, accessed on November 11, 2020, http://yamallng.ru/en/project/about/.

interests with China on the multilateral basis. Russia, its EAEU partners and China still have a long way to go to develop mutual understanding and achieve regional synergy that would be advantageous for all the players.

While there is vast collaboration space for Russia and China in Eurasia, potential conflict points remain. China is interested in developing the Free Trade Area with the EAEU, but this move would hardly correspond with Russia's interests given the sizes of the two markets and their trade structure. Second, experts suggest Moscow and Beijing have not only concurrent but also contradicting interests in Central Asia. Russia cannot compete with China as an economic partner for regional countries, but remains the key security provider, while Chinese activity on this front is less noticeable. Former Soviet republics in the region have been traditionally seen as an area of Russia's strategic interests, and growing China's engagement may come into conflict with this, making Russia and China rivals rather than partners. Some of the SREB transport corridors go through Central Asia and bypass Russia. However, Moscow and Beijing are aware of these sensitivities, show mutual understanding and so far manage to avoid clashes of geoeconomic and geopolitical interests in neighboring regions.

As well as on the other fronts, in Eurasia preserving autonomy and avoiding excessive dependence on the Eastern neighbor is a pending task for Russia. It is worth noting that Russia has been vocal in not joining the BRI, but rather developing its own ambitious projects (though their results may still be modest) in parallel and on the equal basis with China's ones. Moscow is also working on diversifying its partners in promoting the Greater Eurasian Partnership and other collaboration formats in Eurasia. Notably, the EAEU signed FTA agreements with Vietnam and Singapore among others, and India and Indonesia are looking at closer collaboration on this track.[86] India joining the SCO with Russian support can also be perceived as step to balance growing China's influence in the grouping, without prejudice to the fact that it contributes greatly to the Organization's position on the regional and global scale.

Beijing emerges as Moscow's priority and currently irreplaceable partner in Eurasia. At the same time, realizing Moscow's ambitions in the region and using its synergetic potential to Russia's benefit can only be possible by fostering diverse partnerships. It is especially important to avoid limiting its options at the time when tensions of both players with the West rise dividing the continent.

8 Conclusion

The U.S. and its allies have adopted a tougher approach toward both Russia and China in recent years. However, Washington's approaches to Moscow and Beijing differ significantly. If China is largely seen as a long-term strategic and economic competitor, Russia is perceived as a direct threat to U.S. interests. This is why the

[86] Vinokurov (2020).

tools that the U.S. uses in both cases are entirely different. Sanctions have been imposed and a large-scale information campaign is being waged against Russia, while a full-scale trade war has been started with China.

With the Western factor not to be overestimated, the process of convergence between Russia and China, which began in the early 2000s and intensified after 2014, was mostly driven by such natural reasons as geographic proximity, complementary economies, similar development paths and common values. The Western pressure accelerated this process, but it is not decisive in the further development of Russia–China cooperation.

Despite active ties in many areas, including the growth of trade between the countries, the partnership still lacks comprehensive and profound character. Close relations between the leaders of the two states and frequent contacts at the highest level did not fully eliminate the mistrust between Russian and Chinese people and businessmen, which impedes closer cooperation. However, given increasing Western pressure aimed at limiting Russia's access to capital and technology markets, Beijing will likely remain the key partner for Moscow in terms of both economic and political cooperation. At the same time, clear red lines exist for both states, no less in political rapprochement on the international arena than in economic and cultural partnership. Therefore, Russia has to modernize and focus on maintaining diversified ties so that it does not become overly dependent on the dynamics of the Chinese economy and policy.

In Eurasia, strained relations with the West are also a significant, yet not determining factor. While both Russia and China aim to maintain regional order and expand economic engagements, their desire to protect their national interests in neighboring countries that have historically been part of their zone of interests might spark rivalry in future. Mutual trust at the highest political level prompted Moscow and Beijing to officially endorse the BRI and Great Eurasian Partnership respectively, but in practical terms, there is still no regional synergy. In a similar vein, preserving its strategic autonomy and diversifying partnerships across Eurasia is equally vital for Russia as in other contexts. This is partly the reason that it has not joined the Belt and Road Initiative.

The views expressed herein are the authors' personal views and do not reflect those of RIAC.

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EU–China—Failed Prospects of Win–Win Partnership

Dragana Mitrović

Abstract The aim of this chapter is to analyse the unique, complex and globally important relationship between the EU and the People's Republic of China (PRC) that just marked forty-five years of diplomatic ties.During that period, the relationship between the two biggest global traders underwent different phases, changed contents, aspirations of the two, as well as views of each other, as both sides had gone through substantial internal changes. Chinese initiatives '16 + 1'and the Belt and Road Initiative, strategic in nature, boldly stepped into EU soil challenging Brussels economically, politically and geopolitically. 'Wolf diplomacy' and 'mask diplomacy', together with human rights issues in Xinjiang and Hong Kong that led to mutual sanctions, further eroded relations. How and why EU and PRC arrived at their current position and whether it is realistic to expect a new mutually acceptable cooperation platform to be founded between them. Or, on the contrary, we should be prepared for even harsher misunderstandings and a further distancing of the two to take place. Our reasoning leans towards a hypothesis springs from their substantially different values, history and strategic goals, as well as perceptions of themselves, of each other, and of the global economic and political order. Their mutual misconceptions and misunderstandings, and consequently, disappointments, originate from the same source, as fruitful trade and investment cooperation could not fill that gap.

Keywords EU-China relations · BRI and "16/17 Plus 1" versus EU Connectivity Strategy and Berlin Process · Global actors · Multipolarity · Strategic partners and competitors

1 Introduction

When launching the Belt and Road Initiative (BRI)—that later became incorporated not just in annual blueprints of China's government, but also into the People's Republic of China's and the Communist Party of China's Constitutions—China was

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Y.-C. Kim (ed.), *China and the Belt and Road Initiative*, Understanding China,
https://doi.org/10.1007/978-3-030-86122-3_9

met with a cold response from the European Union, which perceived this course of action as a strategic challenge and a controversial business initiative. As the BRI absorbed the previously initiated “Sixteen plus One” platform for cooperation between China and sixteen “Central and Eastern European Countries”, eleven of which were EU member states and five on the path to join the European Union, distrust and sharp criticism only mushroomed. Business deals offered by China to “the Sixteen” included business practices contradictory to the EU standards and regulations, which at the same time promoted the Chinese way of performing business deals and its specific business culture that included lack of transparency, competition and procedures, and high possibility of corruption. China has only verbally complied with the EU’s concerns, while practice continued exhibiting the same pattern of behaviour.

At the same time, China daringly stepped into the economic and political yard and “core” EU market with a range of acquisitions of technologically advanced or strategically important industries, including strategic infrastructure, placing record high outbound foreign direct investments within the EU market (in 2017, the sum was enormous, specifically as a result of the acquisition of the Swiss *Syngenta* for US $43 billion, but the remaining FDI into the top EU economies also grew significantly, reaching a new record of US $38 billion[1]). Brussels’ abrupt awakening included new legal procedures and the new foreign investment screening mechanism in sensitive areas, such as high-tech and strategic infrastructure. Additionally, there came the adoption of the *Connectivity Strategy between Europe and Asia in September 2018* and *The EU-China strategic outlook in 2019* that named China “a systemic rival, as well as a partner”.[2]

During the COVID-19 pandemic outbreak, a new chapter of animosity between the two was created with China’s “mask and wolf diplomacy” and the EU’s strong reaction. This new reality that does not even remotely resemble the beginning phase of their relationship and holds even lower expectations from this cooperation, affects many more countries beyond the two partners, if not the whole world. The European Union and the People’s Republic of China (PRC) are the two biggest traders in the world—every day they trade with each other for 1.8 billion Euros[3]—and that fact makes their trade relations, as well as general relations, highly significant in global terms. For the PRC, the EU is the second-biggest foreign market (recently the ASEAN took the leading position), and for the EU, China is the second-biggest trading partner, just behind the USA. We will try to analyse how and why they arrived at their current position and whether it is realistic to expect a new mutually acceptable cooperation platform to be founded between them. Or, on the contrary, if we should be prepared for even harsher misunderstandings and a further distancing

[1] Mitrovic (2019), p. 157.

[2] European Commission and HR/VP contribution to the European Council (2019). Available at: https://ec.europa.eu/commission/sites/beta-political/files/communication-eu-china-a-strategic-outlook.pdf.

[3] DEUC (2020). Available at: https://eeas.europa.eu/delegations/china/78510/marking-45-years-eu-china-diplomatic-relations-time-global-crisis_en.

of the two to take place. Our reasoning leans towards a hypothesis spring from their substantially different values, history and strategic goals, as well as perceptions of themselves, of each other, and of the global economic and political order. Their mutual misconceptions and misunderstandings, and consequently, disappointments, originate from the same source, as fruitful trade and investment cooperation could not fill that gap.

2 Early Stages of Relationship and Mutual (Mis)perceptions

The year 2020 marks forty-five years of diplomatic ties and twenty-two summits, including the last one held online,[4] of the unique and globally important relationship between the EU and the PRC. During that period, their relationship underwent several different phases, marked with changing contents, aspirations of the two and different views of each other. Simultaneously, the two had gone through substantial internal changes. The first phase was defined by the strategic decision of the EEZ (of nine members) to welcome the People's Republic of China onto the global scene and accommodate its access, especially after the "reform and opening-up" policy started, while China appreciated such positioning and much-needed economic inputs, especially equipment and technology coming from the Western Europe.[5] That period, marked by mutual benevolent expectations and obvious strategic interests, ended on 4 June 1989, as thereafter the EU enforced comprehensive sanctions against the People's Republic by suspending mutual high-level visits, aid and loan guarantees and joint ventures, and by ceasing their military cooperation, sanctioning the export of weaponry and any high-tech products with a possible military use. Though the PRC's strategic importance for the EU eroded due to the dismemberment of the USSR and the Eastern Block, China's rapid economic development and its rising role as a leading emerging economy led to the lifting of all the sanctions by 1994,[6] except those regarding military technology. In 1998, China and the EU launched their annual summit mechanism and in 2001 the two sides established a full formal partnership. China's rise to a position of a major global manufacturer of cheap industrial consumer products and a trade powerhouse, positions that strengthened even further after its accession to the WTO in 2001, helped advance their relationship to the level of major trade partners and eventually led to a strategic partnership in 2003. In September 2003, the EU published a policy paper entitled "A Maturing Partnership: Shared Interests and Challenges in EU-China Relations", expressing the political

[4] EU-China Summit: *Defending EU interest and values in a complex and vital partnership*—Press release by President Michel and President von der Leyen.

[5] While political dialogue between the EU and PRC started in 1975, formal relations were established under the 1985 EC-China Trade and Economic Cooperation Agreement.

[6] Sources from the PRC's MOFA claimed, though, that ten of the seventeen members have never enforced sanctions in practice.

assessment that EU-China relations had entered into maturity that led to the proposition of a "comprehensive strategic partnership" level of relations with China. In 2003, China's first policy paper on the EU[7] emphasized the global trend towards "world multi-polarity and economic globalization" and named the EU "a major force in the world".[8] Complementarities in economy, especially trade and technology transfer, and to some level, the political arena, were perceived: the EU's developed economy, advanced technologies and copious financial resources, and China's robust economic growth that required foreign advanced knowledge and investments, a huge market and abundant and cheap labour, and an existing disregard towards the waste of energy and pollution, all close to the hearts of major international corporations. This period of their relationship lasted until 2008–2009 and the global economic crises that mercilessly struck the EU and the Eurozone.

Though later questioned by many,[9] a strategic partnership between the EU and the PRC has a very strong rationality—complementarity in economic exchange, with booming interactive institutionalized links, ranging from political to academic ones, the two trade super-powers and major global entities should coordinate their agendas and work together when dealing with the most dangerous security challenges and persistent global problems when performing global governance—in accordance with other major powers. Additionally, EU officials have continually and actively insisted on the common interests that allegedly "naturally" bond the EU and China when dealing with the numerous problems that have been challenging the globalized world,[10] emphasizing the importance of joint engagement and coordination. Such an approach expressed, on the one hand, the EU's determination to keep China engaged, and on the other, it was creating a blueprint for a deepening relationship. On their list of practical frameworks were—poverty alleviation, anti-climate change measures and sharing the costs of existing environmental protection problems, promotion of regional security and maintaining the safety of commercial water-ways (such as joint anti-piracy measures in the Gulf of Aden). In spite of all the shortcomings of the strategic partnership between the two, it was rather rational and expected to see the EU and the PRC pair up as collaborators in dealing with numerous complex global issues and common challenges. When relying on each other and pushing for adopted agenda realizations major powers contribute to more efficient global governance and perform according to their positions' expectations.

On the other hand, even before their relationship was upgraded to the comprehensive strategic partnership level,[11] numerous deep and long-lasting problems appeared and blurred the anticipated deepening and strengthening of the relationship. From the Chinese point of view, EU lacks some basic features to be a qualified global

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[7] China's policy paper on EU (2003). Available at: http://www.chinamission.be/eng/zywj/zywd/t1227623.htm.

[8] Linchu and Yixiang (2005).

[9] Maher (2016).

[10] Maher (2016).

[11] *EU-China: Strategic* Action Service (2013). Available at: http://eeas.europa.eu/china/docs/20131123_agenda_2020_en.pdf.

actor, as it is still facing an “identity dilemma” of whether it is a super block or a group of nation-states each of which has its own (retained) negotiating power. In spite of its initial deep respect for the EU, China has had difficulty dealing seriously with the EU as a global partner, after it came to the disappointing conclusion that the EU is unable to play an acceptably sufficient global role and therefore meet China’s expectations. In the eyes of Beijing, the EU, through performing its global role as a major power, failed to give its contribution to the realization of China’s strategy of a “multi-polar world” that China had expected a lot from. The EU failed to deliver exactly because of this “identity dilemma” and its other key deficiencies, including the fact that, when it comes to the EU’s security, it relies predominantly on NATO and the USA. Essentially, there has always been another crucial undermining element of their relationship. At the very core of this relationship is the fact that they are not each other’s most important global partner, as for both of them that partner is the USA.

Another side of this is that the Chinese economic miracle has benefited enormously from the EU’s integrated market, while during that ride it has been depended on the US dollar, as the RMB yuan was pegged to the US dollar until 2005. The EU’s single currency did not exist at the time of the beginning of China’s “reform and opening-up policy” realization. These are important aspects of the EU-China relations that include the USA as an invisible, but always present, third participant, that has a stranglehold on the relationship between the two sides. Furthermore, in 2003 when there were several unsolved issues burdening the relations, the EU proved again that it is not able to be trusted as an independent partner, as in spite of the promises made by several EU states to Beijing that the PRC would be recognized as market-economy within the WTO, the EU did not act accordingly. Again, in the same year, Brussels promised to lift the sanctions imposed on China after the Tiananmen Square events, but then, due to pressure from across the Atlantic, as well as from some proxy messengers within the EU, it changed its position and did not deliver the promised motion. That was probably the point when Beijing was pushed in the direction of redefining its position towards, having realized that the Union itself was not that important, and concluding that the PRC should focus more on bilateral relations with EU members, particularly the most important ones, starting with the UK, Germany, France, Italy, Greece, Hungary, etc., which were among its biggest economic and political partners or offered some stronghold points for China within the EU. From the opposite perspective, we could observe that EU member states’ behaviour exhibited a somewhat similar pattern: they used Brussels’ institutions when there were discomfort issues to settle that could spoil their fruitful bilateral economic cooperation with the PRC, but when it came to profitable deals with Beijing, they were too arranged bilaterally. China realized that model-behaviour very clearly and incorporated it into its own successful pattern of conducting deals with EU countries.

Again, due to its own misconceptions of its role and rock-solid unity, Brussels continued to preach to China on “universal values”, e.g., “European values”, while dealing with it as it were a dependent Third World country that needed to be transformed accordingly. Actually, China acknowledged a certain EU’s cultural influence of the EU on Turkey, in the African Mediterranean area, and in Central Asia, but concluded that, due to its internal problems, the EU had failed to deliver on all those strongly worded slogans, platforms and agendas. As usually, overused tools become less effective over time. When it comes to criticism without consequences, there were plenty of occasions regarding China's acts in the South China Sea, Hong Kong, Xinjiang, etc.[12] Most notably, Brussels' weakness was exposed when some member states close to China blocked resolutions condemning China's behaviour in particular matters of concern in the European Parliament and in the UN's relevant bodies.

Even though it seemed as if the new millennium was supposed to bring to bear the long-awaited momentum for a strategic partnership between the two partners—and it did bring additional might and operativeness to the EU—to prosper and contribute to more successful global governance, troubles were building up in their communication and overall relations. The EU, its institutions, political leaders, academics and citizens of its member states as well as and their leaders, seemed eager to express the new capacities of the EU—from the monetary aspect, to security and strategic orientation—which were to affirm the 'EU pole' in the world. On China's side, its accession to the World Trade Organization (WTO) unleashed the huge potential of its global involvement, based on its gigantic industrial output and the resulting global trade role, followed by huge financial reserves and investment might. The two expected from each other, and were expected by rising economies, to build on the realization of their complementary advantages, reciprocity and mutual gain. Nevertheless, the period that followed proved to be filled with various issues making their interaction less strategic and more troublesome and frustrating for both sides. Frustrations mostly emerged from disappointment built on false expectations, stemming from one side's misconceptions of the other and the incapability to fulfil its own strategic aims. Looking from another angle, it could appear that those deeply rooted causes of differences were actually the basic characteristics of the pair—their values, aims, strategic objectives, the ways they perceived global order and the international political and economic order in the future, etc.

When it comes to the EU, its readiness to grasp the position of the most advanced unified market and strategic power was soon to be proved an unrealistic expectation due to its internal incapacity to grow in that direction. "Multi-polarity", apparent at the global scene, that was created at the beginning of the new millennium by a growing number of the new rising powers and emerging economies, and their booming cooperational frameworks, was an obligatory phenomenon to be noticed by the existing powers, as that observation would enable them to assess the reality of the global scene and to define their consequentially new or adjusted interests. These interests should shape the positioning of the existing powers towards potent "newcomers" and should be transformed into specific policies and acts. It seems that the EU has failed to notice the change in China's power, which was based on the results

[12] After the latest EU-PRC (virtual) summit (June 22 2020), European Commission President Ursula von der Leyen and European Council President Charles Michel criticized China and threatened with "very negative" consequences if it pressed on with the security law in Hong Kong and actions against Uyghurs in Xinjiang, but no sanctions or other actions have occurred. In fact, it was only Sweden among the 27 member states that proposed sanctions over deteriorating developments regarding Hong Kong.

of its rapid global economic rise and the influence built on it. That oversight was partly caused by divergent interests of the member states and primarily Germany's and UK', France' and Italy's (and much later by the Central, South-Eastern and Mediterranean members) push towards ever-deeper engagement with China without a previous strategic consideration of that engagement on the basis of China's newly acquired abilities and geo-economic interests. Additionally, it was caused by the EU's fundamental determination to follow and wait for the US's lead, which in this case also came very late, during the final days of the Obama administration. Above all of these factors, and maybe because of them, is the fact the EU has been struggling with its internal insufficiency and other problems, which have hindered it from dealing properly with outsides challenges. As a result, the EU was seen and treated by China as "a failed pole" and an inadequate global actor, and a thrown-away opportunity for action based on the common ground on the global multi-polar scene. Simultaneously, China was developing its global agenda and shifted its resources to transform these strategies into reality. Due to its rise and multiplied forceful attributes of power, that agenda has been affecting the whole world, including the self-trapped EU.

As the EU kept on behaving as an unproductive rhetorical power that lacked efficient action, it provoked a strong reaction in China. There was a growing frustration in Beijing over a lost possibility of multi-polarity backed by the EU as its "support pillar", and over the EU's secretarial inefficiency alongside its political over-complexity. Furthermore, Chinese leaders found it disrespectful to be preached at from the self-righteous moral position of the Brussels, which did not recognize China's "exceptionality". At the same time, numerous actors within the EU's official and non-governmental spheres engaged in a very developed support network for different anti-PRC organizations.[13] A powerful example of the misunderstandings between the two occurred during the French Presidency, when, in different European countries, various anti-China groups protested during the Olympic Torch ceremony. Its upsetting climax happened in Paris, where an anti-China protester attacked the Chinese para-Olympic torch-bearer. The Chinese side, including its population, was particularly offended by this and other similar incidents, as the Olympic Games were seen in China as a window to the world for China's great economic and social achievements that deserved respect from the international community. This led to the boycott of French products in China and the cancellation of that year's summit, which Brussels was astonished by.

[13] Zayul (1959 to 2004), pp. 8–84. Available at: http://tibet.net/1959/01/international-resolutions-and-recognitions-on-tibet-1959-2004/ (Accessed on December 5, 2020); Dutoit (2016), pp. 189–191. European Parliament. Resolution on the human rights situation in Eastern Turkestan (Region of Xinjiang) (1997). Available at: http://www.radicalparty.org/en/content/100497-resolution-human-rights-situation-eastern-turkestan-region-xinjiang

3 "Sixteen/Seventeen Plus One" Framework of Cooperation and the BRI

The world economic crisis exposed that the EU has been suffering from serious crises: a structural crisis, a crisis of value and identity crises, and financial and economic ones—which coincided with China's rise, and corresponding growing Chinese influence within the EU and Eurasia.[14] With China's inter-European regional initiative "Sixteen plus One", the EU's discomfort with China's rapid advancement had become even greater. The rise of China has been accelerating and the country emerged from the global crisis with inter-regional and even global initiatives. The launch of the Asian Infrastructure Investment Bank, the New Development Bank (former BRICS' Development Bank) and other financial institutions that have created parallel financial institutions, along with China's heavy investment in European traffic and energy infrastructure, the EU bonds, and real economy in different sectors, the EU expressed significant discomfort regarding this "inverted FDI process". Even beyond that, when major economic powers within the EU became founding members of the AIIB, Brussels remained passive and powerless. That passivity and ineffectiveness when dealing independently with its domestic problems independently and when dealing with challenges coming from the regional or global scene were too evident to China and helped Beijing's awakening process towards viewing the EU through purely pragmatic lenses.

When in 2011, during the first Economic and Trade Forum between China and CEE countries in Budapest, China's Prime Minister Wen Jiabao announced the new format of cooperation between the PRC and "Central and Eastern European countries", it was an unexpected move for the requested sixteen European states and for the EU. Officially, the format was launched one year later, in 2012, at the Summit of Prime Ministers in Warsaw. However, the unexpectedness of the Chinese initiative did not make it easier for unprepared partners to get organized and capable of dealing with an old—and for many of them—willingly forgotten socialist-era friend that has meanwhile transformed into a global economic superpower with leadership ambitions. At the same time, the EU was challenged with deep crises of identity, which has, along with other recent challenges, shaken its unity and its economic model. The world economic crises basically exposed and expanded many of the EU's systemic problems and made its assets more available to potentially interested in outside investors. The PRC, on the other hand, appeared to be on a rise and able to invest and add stimulating financial incentives as well as provide support to others, including major European and EU economies, struck by the world economic crisis and the Eurozone crisis. The EU seemed to be unaware of China's strategies on European soil, and behaved as vaguely and ambiguously, as ever when it came to China's growing economic strides forward in EU economies and other European economies, or across the globe. At the time when China initiated its new "China plus a region" cooperation platform, this time in Central and South-Eastern Europe, and called it

[14] Sorroza (2011). Available at: https://www.eurasiareview.com/04122011-is-the-eurozone-crisis-changing-eu-china-relations-analysis/

"Sixteen plus One" or "Sixteen Central and Eastern European countries (CEECs)[15] plus China", it did not get much attention inside or outside of the region. The several years older Chinese rent of the two cargo terminals of the Piraeus Port near the Athens caught even less attention. Only later, Brussels' institutions ostracized "Sixteen plus One" to a great extent, and its development into "Seventeen plus One", when Greece joined the grouping in 2019, even more so.

Regarding the motivation of "the Sixteen" to take part in the initiative—especially of the eleven that had already become, or were to become EU member states—there was a very pragmatic element in their behaviour. Actually, the period of few years before, and during the occurrence of the world economic crises and the Eurozone crises, marked the period of disappointment in "New Europe" countries, as they were left in the cold, while invisible financial and trade borders of "old EU" reappeared. In fact, during the crisis all new EU member states were facing significant budget deficits, credit crunches and liquidity squeezes. The EU's inadequate capability to deal with the different aspects of the crises was additionally exposed, while China advanced its new format for invigorating and promoting relations with sixteen Central and South-Eastern European countries. The PRC strategically focused on cooperation in the field of building of transport and energy infrastructure development, "industrial capacity cooperation"—or exporting its polluting, over-capacity industries, trade, financial sector, culture and education, and other projects that were conceived to construct new connectivity both among "the Sixteen" and between "the Sixteen" and China. Interest-based collaboration between investment and liquidity-craving CEE countries and rising China which was dispersing surpluses and looking for most favourable asset-acquisition, looked like a promising pathway of action for states in Central and Eastern Europe. Additionally, China's motivation to invest in strategic infrastructure in South and South-Eastern Europe was based on its (over)supply-side capacity, and the evaluation that these sectors, especially traffic and strategic infrastructure, in Serbia, and in Greece and other CEECs, have been in poor condition, and could expect profitable growth after the upgrade. A relatively cheap and skilled local work-force was another incentive for China. However, their strategic importance was also a factor, as these countries are located on the crossroads of major inter-regional and intercontinental routes. The influx of Chinese funds into these countries announced a long-term strategy of Beijing to create an important grip on one of the most strategic placements of the European Continent.

Additionally, just before the Framework was initiated, China's decade-long "Go Global" (*Zouchuqu*)[16] strategy—that had just marked its 10-year jubilee—proved to be extremely successful. It has given a way to an increasing number of highly conspicuous figures of Chinese financial engagement all around the globe—beyond its traditionally strong economic engagement in Asia–Pacific, the PRC also became a

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[15] The sixteen countries, listed in alphabetic order were: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Macedonia, Montenegro, Poland, Romania, Serbia, Slovakia and Slovenia.

[16] *"Go Global" Investment Strategy Needed for Chinese Enterprises* (2001).

big investor in Africa,[17] too. But, important part of it had been unfurling on European soil, and in spite of the global crisis. In 2011, Chinese outward foreign direct investment (OFDI) spread to over 18,000 companies across 177 countries reaching the value of US $2 trillion. While, unlike Western companies in previous waves of globalization, which were mostly focused on opening factories in foreign countries and off-shoring, Chinese corporations were focused on mergers and acquisitions (M&A). Chinese manufacturing corporations were oriented towards investing into several main sectors: shipping, agriculture, automotive, strategic infrastructure, technology and others, in order to develop new skills and new products, accept new forms of management and marketing and diversify their business. However, they were mainly investing in natural resources, especially energy and metal, as these accounted for 70% of China's total OFDI in the period from 2005 to 2012.[18] When it came to Europe, China's focus on numerous portfolios within the mentioned scope of its interest became cheaper and politically more accessible due to the world economic crisis negative impacts on the EU. Beyond *Volvo*, at the beginning of the second decade of the new century, Chinese corporations became owners or co-owner or the *Kion Group*, *Putzmeister, Schwing* in Germany, *BP*, *Thames Water*, *Weetabix* in the UK, *CDP* in Italy, *Caixa Seguros* in Portugal, and others, including an arrangement with the Salonika Port worth US $4 billion value similar to the one made with the Piraeus Port. During 2010, China's top officials announced interest in Greek railtrack infrastructure modernization, and similar projects regarding airports, shipyards and vessel maintenance, trade and tourism. However, these business deals, though part of China's global strategy, caused particular concerns within the EU, while the Chinese side expressed dissatisfaction with the level of openness of the EU market for FDI coming from China.[19] The year when the "Sixteen plus One" platform for cooperation was announced, FDI coming from China into the EU surpassed those coming from the EU into China's market in value for the first time in their common modern economic history.[20] Chinese FDI into EU economies increased fourfold in the period from 2012 to 2014 and reached the value of US $27 billion, but their impact remained modest regarding the relative size of these economies, and considering they still equalled just one quarter of the value of the EU's FDI in China. Nevertheless, Chinese FDI and other placements, along with the launch of the "Sixteen plus One"

[17] According to the OECD data, Chinese investments have had the biggest impact in Africa where its direct investment amounted to nearly US $51 billion a year since 2007. In proportion to the size of the economy, Chinese direct investments in Africa have been five times larger than in the rest of the world.

[18] Gurría (2014). Available at: https://www.oecd.org/china/china-go-global.htm.

[19] When visiting Greece in 2010 Chinese Prime Minister Wen Jiabao asked for "undisturbed access for Chinese companies" while announcing and making new business deals. Mitrovic, Dragana. Politics and Economics of the China Plus Sixteen Cooperation Framework, Serbian Political Thought, 2/2014, IPS, Belgrade, p. 20.

[20] According to *PriceWaterhouseCoopers*, in 2012, for the first time, OFDI from China outweighed FDI coming in from EU corporations to the Chinese market, for the first time. However, the cumulative value of these FDI made up approximately 1% of the recipient EU member-states' GDP, as well as of the unified EU's GDP.

initiative, alarmed the sceptics and magnified geopolitical concerns. A new phase of the relationship was also symbolically launched—China was not viewed through the same lenses in Brussels anymore, as China's matured ambitions in Europe could not be ignored any longer. Obviously, China's focus was also to become a major intra-European economic and political force, not just a remote trade partner and off-shoring market.

With the "Sixteen plus One" initiative, it looked like the time had come for China's investments and other businesses to be shifted towards former socialist countries in Eastern and Southern parts of the EU and towards the Balkan states, on the (long) path to becoming EU members. Their previous common history, dating from the first days of the People's Republic of China, additionally helped the initiative to proceed. Sixteen Central and South-Eastern European states as ex-communist countries had respective experiences of economic cooperation with China, including an important part of it happening at the beginning of the "reform and opening-up policy", when they exported technology to China along with their initial experiences of the transitional process. What China needed, and got, was collaborative relationship with European countries which did not press China with ideological concerns, and were open to China's initiatives and manners of doing business. However, the awakening of bilateral ties had occurred during the previous decade, and had been initiated by China. When Chinese President Hu Jintao visited Romania in 2004 the two countries established a comprehensive, friendly and co-operative partnership, while Xi Jinping visited Romania in 2009 in the capacity of Vice President, which was subsequently followed by other reciprocal visits that initiated the economic cooperation[21] between CEECs and China, as similar cooperation was occurring between the PRC and Bulgaria, and especially Hungary, which was a hub for China's economic presence in this part of Europe for a long time.

During the decade before launching the "Sixteen plus One", China was also intensifying its economic and political relations with other former socialist countries in Europe, including Ukraine, Belarus and Moldova. While intense and close cooperation with Belarus and Ukraine had been developed, they were left out of the following grouping of the "Sixteen plus One", due to the PRC's respect for the related countries' close ties with the Russian Federation and their geo-strategic importance for Russia. In 2010, China also revealed that it had acquired Greek state bonds, and that the *China Development Bank* had created a regional investment fund for the South-Eastern Europe. Hu Jintao visited Croatia in 2009,[22] in the first highest-level visit from China to the so-called Western Balkans, and once more Chinese intentions to invigorate economic relations with the countries of the region were declared.[23] In 2010, Wu Banguo visited Serbia and announced the preferential funding as well as

[21] "Chinese president calls for better co-op with Romania" (2011). Available at: http://english.peopledaily.com.cn/102839/7568348.html.

[22] Mitrovic (2014), pp. 31–32.

[23] Hu: China to Further Ties with SE Europe (2009). Available at: http://www.chinadaily.com.cn/china/2009-06-20/content_9305867.htm.

the building of a bridge on the Danube in Belgrade (*Pupinov most*), the first bridge to be built by a Chinese corporation on the European soil.

Whereas relations with Western powers seemed to demand subordination, in their collaboration with China "the Sixteen" found themselves treated more as equal partners. This too prompted these states to feel inclined to promote their ties with China, in spite of the fear of this course of action getting in the way of their integration within the EU and the cooperation with the most powerful EU countries that—ironically—recognize and accept China as a vital partner. However, during the same year, a few other significant "made by China" business enterprises occurred. The first one was located in Southern Europe, in Greece, where an investment of US $2.5 billion was made into renting the Piraeus seaport, the main Greek trade port that is strategically positioned between three continents: Europe, Asia and Africa, for 35 years by Chinese state-owned shipping giant *COSCO*.[24] *COSCO* also invested an additional 400 million Euros in upgrading and enlarging three container-terminals of the port to enable them to connect with South-Eastern Europe.[25] An additional collateral gain China got in this deal was a certain geopolitical influence. Since then, *PCT (Piraeus Container Terminal*) a wholly owned subsidiary of *COSCO Pacific Limited*, a world-leading container terminal operator, has been operating focused on upgrading the capacity of the port's terminals by 30%.[26] Finally, COSCO Shipping bought 51% of Piraeus Port (OLP) in April 2016 for 280.5 million Euros (US $312.51 million) in a deal with the HRADF, Greece's privatization agency.[27] Another one was the first PRC's state-owned corporation's attempt to manifest its building and a managerial capability in the EU occurred in Poland, in 2009 and was completely unsuccessful. What is more, that road-building project was a point of reference for cultural clashes and the negative image of Chinese builders.[28] The acquisition of *Volvo* by China's *Geely* during the same year was a completely different story, a fully successful one, as following the deal sales and profits improved. A similar acquisition occurred across the Atlantic as *IBM's* PC and server business were purchased by *Lenovo*. China's entire or partial acquisition of ports in Greece, Croatia, Slovenia, Spain, Belgium, the Netherlands, Italy, has not gone unnoticed. Without serious hindrance, China was buying up critical infrastructure in Europe, while the EU's foreign direct investments in China were on decline. China entered the European territory vigorously offering what was needed: resources, including abundant financial ones, the capability of its companies to engage and perform, and its huge market's attractive force.

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[24] Echo (2010).

[25] Michaletos (2010), Available at: http://serbianna.com/analysis/?p=440.

[26] The DredgingToday.Com (2013). Available at: http://www.dredgingtoday.com/2013/01/15/piraeus-container-terminal-on-modernization-path-greece/

[27] The deal included mandatory investments up to 300 million Euros that the Chinese company would pay HRADF an additional 88 million Euros and increase its stake by 16–67% in the following five years. Please consult: Georgiopoulos (2016).

[28] It was marked by formal protests of a Polish company, which had lost a bid with an offer 50% more expensive than the Chinese one, and finally by a broken contract by *China Overseas Engineering Group (COVEC)*, as COVEC proved to be incapable of delivering its US $447 million contracted project for a 50 km highway from Warsaw to the German border. Mitrovic (2016).

In 2012, on the level of bilateral relations, the EU and the PRC signed the Political Agreement[29] on launching negotiations that should end with the Comprehensive Agreement on Investment. When China's President Xi visited Brussels (on 31 March 2014), as well as several European states, to provide impetus to future relations and to work on the Agreement that should have broaden and strengthen the framework of comprehensive strategic partnership, relations seemed to be developing in a mutually acceptable direction, both side seeming to have finally reached an acceptance of the reality of the relationship. But in spite of very impressive data about their trade that rose above the value of one billion Euros per day, nonetheless, it is a striking note that trade (with the EU having a huge deficit in visible trade) makes up the dominant proportion of the relationship, defined as a comprehensive strategic partnership, and thus bringing the relationship's strategic level into question. Having said that, it is even more emblematic that this particular dominant way of interaction is burdened with problems. At the time of President Xi's aforementioned visit the process of unpleasant bargaining and serious disputes and accusations between the two generated more tension, with solar panel issues and other anti-damping procedures initiated by the EU at the time. These issues were settled ahead of the 40th anniversary of the relationship, but achieving a truly comprehensive agreement on trade and investment proved to be more complex and difficult. However, differences based on different values and the misunderstanding of each other kept emerging. The revival of economic cooperation between China and Central and Eastern European countries through the "Sixteen plus One" platform in 2012 was a significant upsetting issue for those in the EU who were reserved about China's "hidden agenda" in Europe. After enthusiastic beginning, there were soon some questionable elements of the framework that challenged it from within. At the first summit, Chinese Prime Minister Wen announced a set of measures, later named "the twelve measures"[30] as a framework for reviving relations. Among those was a credit line of US $10 billion of which 70% of which were "commercial loans". Nevertheless, the whole amount of US $7 billion lingered due to unfavourable conditions, as was unofficially explained. Projects in the area of transport infrastructure, high-technology and renewable energy were prioritized. But these loans were arranged under discriminatory conditions, since the Chinese side required state guarantees from the recipient state concerning infrastructure projects—which was not possible for eleven of "the Sixteen" that were the EU member states died to the EU's regulations and introduced business practice in carrying out projects. Since projects were agreed upon the highest political level, financed by designated Chinese state-owned bank, realized dominantly by a Chinese state-owned corporation with no bidding process, etc., it was declared as market distortion by the EC. This was China's way of introducing its method of conducting business in Europe, in less regulated markets of the non-member states of South-eastern Europe, but it was also a challenge issued to the

[29] European Commission (2020).

[30] China's Twelve Measures for Promoting Friendly Cooperation with Central and Eastern European Countries (2012). Available at: https://www.fmprc.gov.cn/mfa_eng/topics_665678/wjbispg_665714/t928567.shtml.

norms and standards of the EU, as all these countries were on the path to become member states. Some projects were also later discovered to be connected with corruption as an element of the decision-making process and its cost, while others were determined to be jeopardizing the recipient country's level of debt.

The goal of the cooperation in trade, which was proclaimed to increase up to US $100 billion by 2015 as a result of one of the "twelve measures", was not reached, though it did not cease to grow. Nevertheless, the trade deficit of "the Sixteen" also increased significantly.[31] According to Chinese official data, in 2016, the trade volume between China and CEECs reached the value of US $58.7 billion, but, on the side of the CEECs the five most developed CEECs ended up being dominant actors in the venture, with a participation rate of 82 per cent. In plentiful trade fairs in China and in "the Sixteen", Chinese corporations were mostly interested in increasing their export, while the biggest exporters among the CEECs, such as Poland, complained that when the Chinese market opened for some products, it had a tendency to close for others.[32]

Every year, there has been a summit of prime ministers in a different capital of the CEECs or in China, with institutionalization and legal bases of the cooperation being built on, together with political documents and an abundant set of initiatives regarding economic cooperation. At the Belgrade Summit held in December 2014, the parties adopted the "China 2020 Strategic Agenda for Cooperation" and stated that the EU legislation was the basis for the cooperation. At the Summit, the parties supported the set-up of the China-CEEC Business Council in Warsaw. The decision on the formation of the first sectoral coordination centres was adopted: the China-CEEC Tourism Promotion Agency in Budapest and the China-CEEC Investment Promotion Agency in Warsaw and Beijing. At the summit, Chinese Prime Minister Li emphasized that all the agreements and projects had been pursued in line with EU regulations. During 2015 and the first half of 2016, cooperation intensified and the period was marked by high-level visits. The regular prime ministers' summit was held in Suzhou in November 2015, and China's bilateral cooperation with the Czech Republic, The Republic of Serbia and Poland, was highlighted with President Xi's visits to the three states in Spring 2016. It was the first occasion wherein China's top leaders visited exclusively CEECs when coming to Europe. The essential theme of the relations during that time was upgrading and framing the cooperation into China's internal and international frameworks, especially the BRI. In that sense, the modernization of the Belgrade–Budapest railway was specified as particularly important, and the "Sixteen plus One" project became "the most important BRI project in Europe". The project was initially approved in November 2013 during the China-CEE countries prime ministers' meeting in Bucharest, by China, Hungary and Serbia.[33]

[31] Pencea (2017).

[32] Mitrovic (2019), p. 141–165.

[33] Rail section through Serbia is totalling over 200 and 166 km through Hungary. According to earlier estimations, the modernization would cost between EUR 1.5 to 2 billion. Mitrovic, Dragana, "16 + 1 in 2015/2016 - upgrading, framing and stepping up cooperation". *Asian Issues*, Vol. 2, No 1. 2017, p. 8.

Once completed, the railway was supposed to become a major commercial traffic corridor along the planned path from the Athens' Piraeus Port towards the North, along Greece, through Northern Macedonia, and Serbia and onward to Budapest.[34] The actual construction on three-party project, described by the Chinese media as "*China Railway Corporation's* first project in the EU" had not started before 2019 in Serbia's case, although an important section was under construction performed by Russian RDZ, under the agreement from 2013.[35] There was one more symbolic opening during the Budapest Summit in 2017, but it ended with the Chinese corporation's engagement in renovating the Zemun railway station. The project, though, remained a top priority for Chinese planers,[36] while Chinese president Xi Jinping named it a top project within the BRI at the BRI Forum held in Beijing in May 2017.

In order to solve the conundrum and make it acceptable to the EU's regulations and to fulfil China's aspirations in the project, the Hungarian government needed the COVID-19 measures to make its twenty-year credit of US $1.8 billion with China's *Exim Bank* (meant to find 85% of the construction's costs) classified information for a period of ten years. The rest will be covered by Hungarian government, while the construction will be done by the Chinese-Hungarian consortium. As this infrastructure project worth almost US $3 billion was prepared contrary to EU regulations and standards, which require a public tender, the EU opened an infringement procedure against Hungary as early as 2016. In addition, Hungary was legally obliged to reduce its debt from 75% of its GDP to 50%, but this credit led the country in the opposite direction and created even more problems within the EU and between the EU and China.

Another overlapping strategic goal for both the "Sixteen plus One" and the BRI is to spread the Chinese culture. In 2006, the first two Confucius Institutes in CEECs were established in the capitals of Bulgaria and Hungary, while by May 2014 there were already 24 Confucius Institutes and eight Confucius Classrooms established in fourteen CEE countries, with 18,000 students mainly studying the Chinese language. After initial enthusiasm, dominantly Central European and later the Baltic member of the "Sixteen" started to express dissatisfaction with the framework. Though they were the biggest beneficiary of the framework's economic side, they complained about undelivered China's promises on FDI and growing trade deficit on their side.

One year after the "Sixteen plus One" initiative was launched, a much bigger and much more significant strategic initiative, The Belt and Road Initiative—consisting of land-based Silk Road Economic Belt and sea-based 21st Maritime Silk Road BRI—was announced by China's president. The BRI epitomizes China's enterprising and dominant shift towards creating a reality in which it will have a reinforced position in global economic and political affairs. It also shows the way in which China would like to make its impact on shaping the present as well as the future of global affairs.

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[34] Ibid. p. 8.

[35] For more about Belgrade-Budapest Railways upgrade, please consult Mitrovic (2019), p. 141–165.

[36] For more, please consult: Mitrovic, Dragana: Political Economy of the Chinese Investments in Eastern, Central and South-East Europe. *Asian Studies*, Budapest: Vol 2, 2013, pp. 167–185.

On the other hand, it could be seen as the next phase of China's "reform and opening-up" policy's realization. While the BRI has been outward oriented, it was created as a solution-platform to China's domestic economic, political, security and social needs. Its strategic creation is made of structures and connections (by mechanisms, formats and projects) that should present solutions for the Chinese domestic economy to keep its growth rate, providing sustainability to the existing development model while it is undergoing a major change into a consumption driven one, to provide employment and markets for state-owned corporations burdened with over-capacity, to ensure higher capitalization of its financial placements, diversify (and secure with state-guaranteed loans) its OFDI, and to provide internationalization of the RMB yuan, including even its crypto version. It also has a role in creating new markets for a range of over-produced products, productions and services—among others: steel, glass, cement and shipbuilding—and high-tech products and services, such as e-commerce. It should also help China export its major polluting industries by "cooperation in industrial capacities", something put very high in "Sixteen plus One" agenda by China's leader. The BRI's connectivity feature is also meant to unify Chinese market and standardize it in many aspects, to export Chinese managerial and building skills, among many others, to spread China's high-tech products and technologies, as well as China's standards in these areas. China, through the BRI, has been making itself a normative power. It is also about to spread China's way of conducting economic development and growth and its way of making business deals and performing business operations, as well as expending its culture influence in general. China has strongly politically promoted the BRI and its strategic continental connectivity vector throughout Eurasia by way of an impressive number of bilateral agreements of good neighbourly, co-operative and strategic partnerships. The PRC has also financed and built transport, communication and energy infrastructure within the first six corridors of the BRI, that later expanded globally.[37]

The Belt and Road Initiative, strategic in nature, but named "initiative" to remain soft and inclusive in manner, has a strong geopolitical element, beyond the geo-economic one. Expanding over several maritime vectors via the "*21st Century Maritime Silk Road*" to reach Asia–Pacific, Africa and Latin America as the final point, and via the continental one via the "*Silk Road Economic Belt*", China has declared its strategic orientation to become a maritime power once again, after many centuries. Similarly, in order to expand throughout Eurasia mitigating the Malacca dilemma and other possible challenges on the blue sea China has simultaneously been engaging its major and other partners from its south-eastern coast cities, over its territory towards Eurasia and up to the Western coast of the European continent. Along roads and across continents, this has helped China to open its first naval base in a foreign territory in Djibouti, and to spread its *5G* telecommunication equipment and technology through the medium of its gigantic state-owned hi-tech corporations that had become globally dominant in many areas—such as Huawei, ZTE, China

[37] Mitrovic (2018), pp. 26–46.

Telecom, etc. By doing so, China was willingly challenging the existing international political and economic order, its norms and regulations, its values and major powers, notably the USA and the EU.

China recognized that "Central and Eastern European countries" were key partners in its Belt and Road Initiative as all "Seventeen" were situated on the route charted by the Initiative. This explains why the previously created "Sixteen/Seventeen plus One" framework of cooperation was immediately incorporated into the Belt and Road Initiative. When it comes to "Sixteen plus One" cooperation, the BRI somewhat blurred the limits of its content. On various occasions, different Chinese officials and scholars have emphasized that the two had merged and, accordingly, previously arranged and even finished, projects became proclaimed as BRI projects. In that sense some "Sixteen plus One" projects "became" parts of the BRI: the cargo terminals of the Piraeus Port or the Belgrade-Budapest railway, the bridge over the Danube in Zemun-Belgrade (*Pupinov most*).

While the major collaborative projects between CEECs and China have been progressing steadily,[38] they have fallen victim to a variety of obstacles. These result from the relatively limited capacities of the small economies of "the Seventeen"; neglected ties between the two sides in the decades prior to the platform's introduction; China's tendency to treat the CEECs as a grouping of states, outside of their obvious differences; the EU membership of eleven, and later twelve CEECs and the legal and politico-economic implications on their cooperation with China; and China's continued pursuit of its less-than-transparent methods of conducting business operations and concluding business deals with high-level political and state involvement. Cooperation with China would have been much more beneficial if their domestic governments had managed to avoid the competitive tendency within "the Sixteen" in order to determine their shared middle- and long-term objectives across a number of major areas for collaboration. To date, they appear to be just a passive partner in one of the complex experiments of a China ascending towards its desired global position, while bilateralism in relations with the PRC prevails over the "Seventeen plus One" platform.[39]

Nevertheless, "Seventeen plus One", for all its shortcomings, did succeed in pointing out the EU's political and economic limitations for the duration of the economic crisis years, during which not only the eleven member states, but also the candidate countries and future candidate countries within "the Sixteen" found themselves both politically disregarded and economically deprived of many of the EU's funds. Even worse, Brussels boldly pursued its traffic and energy corridors while ignoring the needs and desires of the countries over whose territories these corridors would or would not pass. Here, China filled the void, and was welcomed by

[38] *China-CEEC Ties Make Remarkable Progress, Enhance China-EU Cooperation* (2017).

[39] Mitrovic, Dragana, "Six Years of '16 + 1' Framework of Cooperation—in Between EU, Expectations and Limitations", in: *Challenges of Adjusting to a Changing Global Economy in the 21st Century*. Bucharest: Romanian Academy; Chinese Academy of Social Sciences, (CASS); Beijing: The Institute of International and Public Affairs; Tongji University, Shanghai, 2019.

local political elites, sometimes stimulated in various—though, not always acceptable—ways. A plausible perspective on this has been that China's strong appearance "helped" Brussels' institutions to become a responsible stakeholder by way of its European Structural and Investment Funds (ESIF), The European Fund for Strategic Investments (EFSI), the Connecting Europe Facility that mobilizes investments in cross-border infrastructures for transport, energy and digital networks and other financial tools introduced for member states, as well as to go on with a Connectivity Agenda as part of the Berlin Process for the Western Balkans, although it was worth only EUR 1.4 billion and later accompanied by another offer in the form of a modest COVID-19 recovery fund worth EUR 9 billion. The other part of the EU's awakening is a New Framework for Investment Screening that will render further attempts by any Chinese corporation to acquire security sensitive assets, such as an energy infrastructure firm or harbour, considerably more difficult and subject to strict EU rules.

4 EU Connectivity Strategy and COVID-19 Impact on the Relation

The EU Strategy on Connecting Europe and Asia was introduced on September 2018 with concrete policy proposals, initiatives and projects to promote connections and improve cooperation between Europe and Asia, through, among others, transport, energy and digital networks, as well as the Investment Facility for Central Asia, the Asian Investment Facility and the European Fund for Sustainable Development (EFSD). Though it was formally delivered as the EU initiative for the Asia-Europe Meeting (ASEM), it was widely seen as a major, though somewhat belated, EU's response to the BRI and China's strong influx inside European territory and the EU's interest zones. The EU's connectivity agenda insists on "sustainable connectivity and investments that need to ensure market efficiency and be fiscally viable," "comprehensive connectivity," and "international rules-based connectivity."[40] The EU strategy on connectivity between Europe and Asia set out very different principles to those of the BRI's though leaving space for common ground for cooperation with China. The strategy also insists on "high standards of transparency and good governance" in connectivity projects, "giving a voice to the people affected by the projects, based on appropriate public consultations" directly expressing problem-causing in the eyes of the Brussels the Chinese and the BRI's projects with top-down model of policy-making and decision-making processes. As pointed by many, that difference in values and standards is and will remain difficult to resolve and create "win–win" outcome, advertised so often by China.

The global aspirations of China, especially after the formation of the "Sixteen/Seventeen plus One" initiative, and China insisting on its own way of doing business inside its own market and globally, including along the Belt and Road, have

[40] "Connecting Europe and Asia—Building Blocks for and EU Strategy" (2018).

become an obstacle and cause for scrutiny in the EU political circles and the general public. The European Commission's "*EU-China: Strategic Outlook* that branded China as "an economic competitor in the pursuit of technological leadership, and a systemic rival promoting alternative models of governance",[41] thereby initiated a major shift in creating an effective strategy that would express a changed viewpoint towards China and firm EU stands. Clashes during the COVID-19 crisis along with developments in Hong Kong, Xinjiang, and the South China Sea, only deepened the mistrust and exposed their remote positions. After the EU's Strategic Outlook, the two summits of the pair, one in April 2019 and the latest (held virtually) in June 2020, were additionally burdened with the aforementioned issues, together with cyber-security, and were marked by new misunderstandings and the EU's firm stand before China's not delivering upon the previously agreed arrangement.

The COVID-19 pandemic added another disturbing element in the EU-China relationship. In Brussels and many other Western capitals, China was seen as trying to seize the occasion and put itself in a leading position in the global struggle against COVID-19. For many, Beijing saw the initial inappropriate reaction of the EU and the chaotic response of the USA to the pandemic as a trigger for its designed global aspirations. The generally inefficient reaction to the COVID-19 pandemic by Western democracies had "proved" to Beijing that it would outdo the USA and particularly the EU as a global power, based on the belief that China was rising while the West's power was fading. It also supported the growing concerns that China was using the "crisis as an opportunity"[42] not just to pursue its leadership-driven ambition, but to advertise and "export" elements of its political system to rising economies and Third World countries, and some Central and European countries allegedly inclining towards authoritarian political systems.

Through its "mask diplomacy" campaign China sent medical assistance to more than one hundred and fifty countries around the globe, including EU member states, Serbia and few other "Sixteen plus One" non-EU members, the USA, Russia, Iran, and all African states, at the same time attempting to buffer the negative impression of its initial handling of the virus domestically and towards the world that enabled it to cause a pandemic. Beyond donations, China has also sold huge quantities of badly needed ventilators, test kits, masks, disinfectants, and other essential goods. What was hardly, if ever, mentioned by Chinese media outlets was the fact that China had received generous help from abroad, especially from the EU, months earlier, when it declared its health emergency and lockdown. In contrast with China's subsequent requested public performances in recipient countries during deliveries of its aid, the PRC had asked the EU for discretion when receiving assistance. This coupled with the application of "wolf diplomacy" against those who wanted answers about the origins of the virus and the second pandemic in the last twenty years spreading around the globe from China, anger in the EU public sphere was caused by inaccurate test kits sold by Chinese corporations to the Netherlands and some other countries. These developments caused the EU-China relations to further deteriorate.

[41] Small (2020).

[42] Thomas (2020). Available at: https://macropolo.org/china-great-power-foreign-policy-covid19/.

After seven years and thirty-five rounds of negotiations, the Comprehensive Agreement on Investment (CAI) throughout of 2020 remained a distant goal. The positions of the two sides stayed entrenched—the EU was getting stricter in its demands and expectations, while China kept on repeating its verbal commitments and delivering very little in reality. The EU's side had made and insisted upon specific requests while attempting to "rebalance" the existing disproportion in market openness of the two, seeking an opening of particular key sectors of the PRC's economy, such as: telecommunications, ICT, financial services, health and manufacturing for FDI from the EU, and further opening other markets for export coming from its member states. The EU insisted that the Agreement was not just about creating new investment opportunities, but first improving the existing business environment for EU companies so that they compete "on a level playing field" on the Chinese market. Specifically, the EU side was demanding very similar commitments to those requested by the USA, naming "avoiding forced technology transfers, removing discriminatory authorization procedures, ensuring that Chinese state-owned enterprises compete on equal terms" and act on the basis of commercial considerations and not like state agents, and improving transparency regarding subsidies to Chinese companies.[43] The EU required firm commitments and deliveries by China on sustainable development, in particular the protection of the climate and the environment, as well as on labour rights. By demanding all these, the EU partly asked for the impossible—for China to change its economic model—but in spite of that, both sides continued to negotiate. Seven years of negotiations exposed their deep differences in values, while their goals remained alike—to prevail over the other side's determination and might.

Only until the last days of 2020, it seemed as if the deadline would be missed, and that the EU's negotiating position's integrity was to remain untarnished, while outside of the negotiating table the new USA administration wanted "early consultations" to make a common-China approach, and China (voiced by Wang Yi) "supported the EU's push for strategic autonomy". He also announced the deal to actually be made and—it was. The deal "in principle" was closed on December 30th, thanks to a strong push from Germany and France, and contrary to the interests of many, especially the less investment-oriented EU member states, human rights groups, the EU-USA partnership, the European Parliament and the EU's own reputation. Germany has used its EU rotating presidency in 2020 and its influence in the EU bureaucracy—the President of the European Commission's and the director-general for trade are both Germans—to close a deal that is most beneficial to big German companies in China.[44] There are 5200 of them operating in China, with direct investments of EUR 76 billion, according to the latest figures from BDI, the German industrial lobby. With the support of French President Macron, who joined the online meeting

[43] EU to evaluate Chinese offer for European investors, *European Commission*. Brussels, 19 December 2019. Available at: https://trade.ec.europa.eu/doclib/press/index.cfm?id=2096

[44] Erlanger, Steven. Will the Sudden E.U.-China Deal Damage Relations With Biden? *The New York Times*. January 6, 2021. Available at: https://www.nytimes.com/2021/01/06/world/europe/eu-china-deal-biden.html.

with Xi Jinping in an unknown capacity, German Chancellor Merkel was able to push the deal in spite of a resistance within the EU among political circles and many public figures. Additionally, on December 16th, Germany's cabinet sent legislation to the Bundestag that would allow China's Huawei, under strict security guarantees, to build 5G networks on its territory,[45] ignoring security concerns from Washington and many EU partners that excluded the Chinese firm altogether; this fact again illustrates what the top concern of the German political elite is when it comes to China. On the other hand, weak resilience towards economic uncertainty and public dissatisfaction with swinging anti-pandemic measures' results along with close connections to the interests of big corporations, make Germany, the biggest EU economy and major pillar of its resistance towards major global powers' influences, weak and submissive to China's negotiating tactics. Nevertheless, the EU, via its political leaders, sent a very strident message that it preferred a pragmatic deal over "European values".

By concluding the CAI this way, the EU disadvantaged itself of a strong influence over China that it maintained during the period of negotiations, and it will diminish the EU's probabilities to get the aspired equal terms in trade and investment cooperation with China. Additionally, the CAI will most likely spoil the EU-USA alliance and prospects for joined pose towards China, and to accomplish its goals and to persuade China to reduce the ill-treatment of human rights, as well as to discourage its assertiveness abroad, the EU needs the strength of a unified position with other major powers.

5 Conclusion

As defined in *The EU's Strategic Outlook on China*, the Union was determined to "improve and rebalance" the trade and investment relationship. And until the end of 2020-year when the 45th anniversary of EU-PRS relations was marked—and after seven years of negotiations to conclude the CAI, the two parties seemed to remain far from achieving it, entrenched in their positions. For the EU's side, the rule of law is the default position and all member states would agree on that, but when it comes to many other issues, unity of the EU is waning. So as to prove this, suddenly, and at the last moment, the deal was done, pushed by Germany and France, opposing dominant, domestic EU and cross-Atlantic, expectations. That is an aspect of this relationship which for Beijing was often a negatively affecting quality of it, but which, on the other hand, has often given Beijing a chance to exploit it. Accordingly, concluding the CAI ("in principle") exposed some of the deep weaknesses of the EU coming from different interests of its member states, and ability of most powerful among them to shift the EU towards fulfilling their own particular interests on the expense of the common interest of the EU.

Most of the problems between the EU and the PRC faltering their cooperation more and more over the years—and that goes for the totality of the relations between the

[45] Germany opens the door to Huawei, with conditions (2020).

Western powers and China—originate from both side's unrealistic perceptions and expectations from the opposite side. In China's case, it was the belief that as it grows it would be accepted and appreciated as a major country, though run by the Communist Party and with a crucially different mode of operation and culture. However, at some point, Beijing realized that, while China was being involved into the liberal international economic order, with that came anticipation that it would gradually change and eventually adopt that order's values and norms. When the CPC leadership "saw through it", it was an awakening and disappointing point for them, "proving" again how unfairly the West had treated China. They decided to rebuff "Western universal values" as part of a "Western capitalism ideology", as pointed out by China's President Xi Jinping. Eventually, the EU and other Western countries finally comprehended that China would not change and that it had meanwhile become a tremendously mighty, and revisionist power—something they had not anticipated nor wanted to happen. It was not just the fact that China had not broken their expectations, but more—it put the EU into the position where it needed to adjust to new challenges coming from such development.

Nevertheless, they had to continue with their bilateral ties along with the process of shaping a new world order and the transformation of China into a global power in full capacity. The lack of capability on the EU's part to make a needed impact on China through its mutual-engagement process influenced all of these developments. It let oversized room for China to rise without the helpful impact and normative influence of the EU that could have helped China in formatting and exercising a more balanced, considerate and possibly more modest global power aspiration mission. The rise of China and its might to reshape the world order with its own financial, political, and cultural resources was not assisted by the EU due to the EU's weakness and contrary to the global need of the EU's constructive contribution. Chinese analysts have pointed out that now the EU is declining, as almost all member states are in the same declining status. Because of that, accordingly, the EU has become offensive, more conservative and more unable to solve global issues and it did not assist and support China on the level it was supposed to do. A more engaged and solid EU would have almost certainly kept China occupied with building a multi-polar order, and kept it away from strategies of "major power relations" within the framework of G-2, or even from notions of being the dominant power.

But in spite of the global importance of EU–Sino relations and enormous potentials for its development on a win–win basis, that at the same time would benefit the global political economy, it has remained severely strained and underdeveloped in many areas that altogether make global governance less effective. It has also narrowed the EU's capacity on the global scale and blemished its once admired model in the global community. The EU and China will continue competing, cooperating and (mis)interpreting each other while their substantially different values will continue to clash.

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On the Role of the Belt and Road Initiative and the 16 + 1 Cooperation Within the Sino-European Relation

Balázs Sárvári

Abstract China emphasises the peaceful character of its development but we witness some areas where we have to answer for concerns. One item of this list is linked to the 16 + 1 framework. The majority of these 16 European countries are failing to manage convergence and lagging behind the most prosperous parts of the EU. This dual-faced European economy offers an opportunity for China to gain strategic economic and political positions in the EU. The overview and the valuation of this cooperation in details and its global relevance will be one of the core pillars of the chapter. Within the 16 + 1 cooperation Hungary may be highlighted for many reasons. The idea of the 16 + 1 was born in Budapest in 2011, one of its main materialised projects is the Budapest-Beograd railway. And furthermore in Hungary there was a growing discussion since 2014 on "Can China set us an example?", as Professor Kornai formulated it in the title of his paper. To what extent may a European country look on China as a prototype for economic, political governance? The Hungarian experience will be considered as a case study here, addressing its engagement with the Belt and Road Initiative. Ultimately, the discussed insights will be evaluated against Kissinger's new term: coevolution (On China, 2011). How does the China–EU relationship fit to this theory? How does the 16 + 1 cooperation and its various forms follow that? Such questions will be answered in the concluding sections of the paper.

Keywords 17 + 1 cooperation · Dual-faced European economy · 16 + 1 Cooperation Hungary · EU–China relations from Hungary · BRI

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Y.-C. Kim (ed.), *China and the Belt and Road Initiative*, Understanding China,
https://doi.org/10.1007/978-3-030-86122-3_10

1 Introduction

It is more than 40 years since China stepped on the way of reform and opening. Despite its marvellous political economic development it may be still a question: is the reform accomplished, is the opening completed? Before answering to these questions, we should understand both keywords in this slogan. Many explains that reform meant a new gravitation point for the country's strategic planning and opening supported this policy by welcoming market processes and foreign sources. Actually we argue that this is half true.

China's development path significantly changed in the 70s but much before Deng took power. The real shake in international politics happened before. It was Nixon's visit to Beijing (1972) and previously Kissinger's secret arrival for preparing the breakthrough event. The meeting symbolised that instead of accompanying the other Communist giant, Mao linked China's future to globalisation which rules and institutions are set by Western actors. The new policy was set by Mao and with the reforms Deng created the supporting environment to it. The main content of these reforms is the orientation to Western policies (Gervai and Trautmann 2014) which is defined by the commitment to avoid warfare as a tool to change world order after World War II. It does not require the adaptation of Western institutions or accept its colonial past's revival but necessitates to steer away from the Soviet-type antagonism. Globalisation was the Chinese reform's orientation point and international market was the tool to reach it. Opening means more than price liberalisation, foreign investment and private ownership. China opened itself to globalisation through international markets and its main characteristic, namely competitiveness. Development was triggered by international competition hence China had to apply gradual modernisation—not simply technologywise but also in the widely understood division of labour.

The economic form of Deng's reform and opening emphasised the small- and medium-sized enterprises (SMEs) hence neglected to invoke internationally recognisable large enterprises equipped with modern technology. This trend ended in the beginning of the twenty-first century and China's development prioritised infrastructure construction, domestic consumption and the formulation of a geopolitical view. Thus the key meaning of "reform and opening with China's internal reforms driving a transformation in its relationship with international society" (Buzan 2010: 12) is still on the Chinese agenda, although these terms require new contents in the current period. This transformation provides the background for understanding the recent discussion on the Sino-European relations and Belt & Road Initiative (BRI) which in Central and Eastern Europe (CEE) overlaps with the 16 + 1 cooperation.

To understand the China-EU relation, we have to accommodate that within the current Chinese worldview which is more alike to a mosaic picture where some elements overlap and some complement each other, instead of to a clearly structured realist painting. Beijing lacks to have a comprehensive masterplan which would define the strategic goals and partners and which would transparently set its preferred scenarios in concrete cases. (Shi 2002) Without predefined roles China formulates a fluid and always changing power network where the ties depend on the actual common interests and which includes overlapping projects and institutions. The China–EU relation highly demonstrates that. Meanwhile, China has an official relation with the EU itself and manages bilateral relations with the main European countries, and it also created a cooperation for a wide range of countries in the 16 + 1, than another in the Nordic-Chinese (5 + 1) and in the Mediterranean-Chinese (7 + 1) regional cooperation—as we will see these cooperation are far not independent from the BRI.

This gloomy status of partnerships affects all actors, from the EU itself to concrete countries and regions. This vague situation resonates with the difference in power dynamics between China and the EU. (Geeraerts 2010) The Chinese state's stability offers the thought that power may be also the source of responsibility and not only the prize of the merit. Thus, China offers an alternative best practice to the Western traditional position. This obscure setting is not familiar to the European diplomacy routines but it does not necessarily mean that a harmful strategy backs it, and it comes rather from the traditional Chinese approach. For this difference, we may remember the contrast between the time dimensions of European countries and China. Meanwhile, the Europeans have a mainly linear approach, for Chinese time is dominantly reversible and possibly fragmented. (However, in China, we may find the linear concept as well.) The linear vision is much more parallel with expansion and growth. This is a factor to keep in mind when somebody wants to understand or even plan the Chinese catch up process (Juhász 2015).

However, China emphasises the peaceful character of its development but we witness some areas where we have to answer for concerns. One item of this list is linked to the 16 + 1 framework. The majority of these 16 European countries are failing to manage convergence and lagging behind the most prosperous parts of the EU. This dual-faced European economy offers an opportunity for China to gain strategic economic and political positions in the EU. The overview and the valuation of this cooperation is the first pillar of this chapter.

In the following subchapter, we cover a bilateral case. Within the 16 + 1 cooperation, the Hungary–China tie is highlighted since it traditionally has a characteristic which emphasises its relevance from both the European and the Chinese perspectives. The source of this unique content comes from Hungary's geographic position. Hungary traditionally fights with accommodating to each other the Western and Eastern approaches towards political economic structures. For that purpose, Hungarian thinkers have to find the common points of the two terminologies and practices. The Hungarian scientific debates express the common ground for understanding between China and the West, and these discussions may also merge the different approaches. Thus, Hungary may be understood as a laboratory for China.

The next main pillar will focus on the Belt & Road Initiative. This is a dominantly infrastructure focused vision which supplies a potential seat for China at political economy-related negotiations in Asian, European, African and Latin-American. There are a continuously growing number of papers discussing the BRI from many aspects but since the launch of it in 2013 there are very limited concrete steps. We will summarise the strategic logic behind the whole initiative and its relevance for the EU and the 16 countries.

Finally I would like to allocate these previous insights in a broader sense with respect to Kissinger's new term: *coevolution* (Kissinger 2011). It means that on the strategic level the main global players competition and rivalry follows coevolution. What is the real content of this idea and how may the China–EU relationship and the 16 + 1 cooperation fit to this theory?

These are the questions I would like to offer answers for in the last block of this chapter.

2 A Regional Negotiating Platform for China: 16 + 1

The (market) size of CEE countries cannot pin China's attention; however, this region holds strategic importance. Beijing's solution for cutting the Gordian knot was to establish a yearly series of quasi-multilateral summits at prime minister level where China meets representatives of these European countries.

The dynamics of these summits come from the political economic weight of China. Even if the incentive of participation is to find win–win situations but being absent is not a real possibility for the European partners. CEE countries' expectations towards China rely on its economic potential which can mean capital supply for green field investments, technology and demand for CEE's export—ultimately jobs for local workers. The China initiated and dominated[1] platform called 16 European countries first to which Greece joined lately and Lithuania left it at the beginning of 2021. "It was China that chose the participant countries of 16 + 1, thus drawing new institutional borders within Europe" (Gerstl 2018: 40). Among the 16 countries, we find EU member states and also non-member states. We find Baltic and Central and Eastern European (Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Poland, Romania, Slovakia, Slovenia) countries and states from the (Western) Balkans (Albania, Bosnia and Herzegovina, the Former Yugoslav Republic of Macedonia, Hellenic Republic, Montenegro, and Serbia) as well.

Creating this mixture was a priority of Beijing. Within that Hungary and Poland seem to be the rivals for becoming the leading partner of China. It is expressed also by the fact that the first 16 + 1 summit was held in Poland (2012), and this event was agreed one year before in Budapest. These countries' relevance to China comes from their geographical location, unique historical background and their EU-membership.

The agreed cooperation is mainly infrastructure-related ones (similarly to the later discussed Belt & Road Initiative) and financed by China. The obvious question is: are Chinese offers that competitive for European countries or it demonstrates the failure of EU policies and such institutions like European Bank for Reconstruction and Development (EBRD)? The CEE countries' economic policy preference is to agree on FDI intensive cooperation with China. Contrary to satisfying the investment demand of the region Beijing offers state loans which shall be paid backward to

[1] China achieved to include Belarus to the 2016 summit at Riga meanwhile continuously blocks the participation of Moldova.

Chinese companies through "market orders" and on the top of everything countries must pay more based on the interest rates as well. It is important to highlight that these interest rates are set above EU market rates. Although we can hear about a 2.5% interest rate in the media (e.g. for the Serbian railway project) but in reality it is a "4.6% interest rate, reduced to 3 percent if more than 50% of the equipment is Chinese, and 2.5% if it includes a more expensive fast train" (Godement and Vasselier 2017: 70). Thus "Brussels needs to keep a careful eye on the evolving picture here: were EU structural funds to dry up, new barriers to rise inside the EU, or, perhaps most challengingly of all, more thoughtful and attractive Chinese offers to appear on the table, this situation might still change" (Godement and Vasselier 2017: 64).

The 16 + 1 cooperation demonstrates that China is already capable to direct the economic policy agenda of European countries. Or in other words "Beijing is able to establish new regional groupings that have the potential to undermine the unity of a larger regional bloc" (Gerstl 2018: 31). We have to raise awareness that the regional level 16 + 1 cooperation overlaps with the globally relevant Belt & Road Initiative thus we will pay attention to this latter project in a separate chapter. Before turning to the BRI we focus now on the Hungary–China relation and its relevance for Brussels. We do it not just because Hungary was the first European country to sign a MoU on the BRI with China but because of this tie offers important lessons for both the EU and China. For expressing the economic and cultural level intensity of this relation, we quote Matura's summary: "Hungary is one of the most stable political partners of China in the region. It hosts the majority of Chinese investments, the largest Chinese community, four Confucius Institutes, the regional headquarters of Bank of China, and a Chinese-Hungarian bilingual elementary school" (Matura 2018: 5).

a. The significance of the Hungary–China Tie from Chinese and European Perspective

Hungary gained the focus of the People's Republic of China (PRC) more than half century before and this attention still effects their relation. In reality, it is more than a bilateral case. It has relevance for the regional competitors of Hungary and also for the EU to understand the dynamics of regional manoeuvres of China. If an EU member expressively links national success to such characteristics as not Western, not liberal and not democratic and later defines the current international stars as Singapore, China, India, Russia and Turkey[2] (Orbán 2014), it unavoidably holds lessons to study for the alike countries and also for its international community. This image appears in the title of Professor Kornai's study: "Can China set us an example?" (Kornai 2014).

Since Hungary is located on the dividing point of Western and Eastern institutional frameworks (it was also on the West end of the Soviet bloc during the Cold War) its historical obligation is to balance between the two different political economic

[2] These points were shared by PM Viktor Orbán on 26 July 2014 at Băile Tușnad (Tusnádfürdő), Romania. His speech was entitled "What Will Follow Is a Work-based Society".

concepts.[3] This invoked an ability in Hungarian social sciences to create a hybrid understanding which arrange the given contradictions between the purely Western and Eastern approaches.[4] Here we mention only two examples. For the first we shall read Fukuyama's comparison on British and Hungarian development in the Middle Ages in the 25th Chapter of his comprehensive study (Fukuyama 2011). It demonstrates the fundamental difference between Magna Charta (1215) and the Golden Bull (1222) and deduces a significantly different political economic framework from it. The second may be witnessed if we pay attention to Hungary's official name after WWII. Hungarian People's Republic (alike e.g. Polish People's Republic) reflects on the name of People's Republic of China and lacks the term Soviet Socialist Republic. This section's aim is to give insights to the speciality of this tie through highlighting the main think tank activities on China in Hungary from 1949 till nowadays.[5]

In the first period Hungarian researchers focused on the so-called Asiatic mode of production and its relationship to Socialism. These papers studied the possibility of substituting the workers by peasants in building Socialism. Till the previous topic was related only theoretically and partly to agrarian policy the second main theme was the practical approaches to agrarian policy.

The Hungarian scientific contribution to China gained intensity after both China and the West (first the USA) committed to open themselves towards each other. Hungarian economists had significant fingerprint on Chinese thoughts about socialist market economy. Chinese delegations often arrived to Hungary in the 80s which invoked a dynamic knowledge transfer between the two countries. As the reforms took place in China the strategic question became how to lead reforms without losing stability. Besides the model of peaceful transition,[6] Hungary could offer a strategic link to Europe for China.

The most influential thinker of that time was János Kornai who emerged via his critical thoughts on socialist economy and relative prices. Kornai as an *unlikely partner*[7] for China (just like Milton Friedman, James Tobin, Sir Alexander Cairncross and from the region of Hungary Ota Šik and Włodzimierz Brus) participated on the Bashan conference held on a ship in 1985. Here, he summarised four potential paths for China: *direct administrative regulation; indirect administrative regulation; laissez-faire market coordination; and market coordination with macroeconomic control*. From these Kornai suggested for his audience, top Chinese leaders and scientist to choose the last one, which alone solves the problems of soft budget constraint, investment hunger and paternalism of the state. The year after the conference his book on Economics of Shortage (Kornai 1980) (Duangue Tingji Xue—Kornai 1986)

[3] This phenomenon is of course not completely specific for Hungary—many other countries have to adapt to these differences as well. What highlights Hungary from these countries is the combination of economics with other social sciences in order to find out the solution for this question.

[4] Tölgyessy provided a study rich in examples for proving that Hungary is a pioneer in political development Tölgyessy (2012).

[5] The detailed analyses of the topic of this chapter may be found in a book chapter in Chinese (Sárvári and Trautmann 2019).

[6] The Hungarian position was mainly to apply shock therapy.

[7] Reflection to the title of the book by Gewirtz (2017).

was already published in China and soon became a best-seller. The fast success created fame for Kornai who became the leading scholar for the reforms and an idol for young Chinese intellectuals (Yining 2012).

The third, current period of China focused think tank contribution of Hungary is triggered by the country's political economic leadership. We already reflected on Orbán's standpoint before, and it resonates with the image of the president of the Central Bank of Hungary. The appointment of Matolcsy (2013) dynamised the China focused researches. What necessitated this shift on the agenda was the global financial crisis and its effect on changing thinking on economics and global division of labour. By this step, Hungary also accepted the challenge to harmonise the two main transformations of the twenty-first century. On the one hand, Western standards provide the continuity for peaceful international cooperation. On the other hand, power shift proves an Eastern orientation. Instead of choosing one from the two and so creating a situation of a zero sum game, the global order may rely on accommodating the two trends with each other.

3 The Belt & Road Initiative

The new trend of Chinese economic policy in the twenty-first century relocates competitiveness from small- and medium-sized enterprises, building industry, processing industry and outsourcing to internationally recognisable companies and globally relevant projects. The BRI symbolises both efforts. It consists mainly construction projects and covers activities on four continents as well. The political economic meaning of this shift is that China is more than the world's factory (Zhang 2013), an influential actor with an own global strategy. China not only supplies the existing markets but participates in shaping the world market.

Statistically the Belt & Road Initiative is an obscure initiation. There is no single official database that would list at least the related projects or an official agenda that would summarise the ongoing constructions and their current status (Goreczky 2018). The topic is rich in propaganda-like papers[8] which do not share deeper analyses than the official slogans of Beijing. These usually highlight such data like total GDP generated by transit countries—even if this data has nothing to do with the concrete constructions or do not mean demand for the transported goods. Despite such difficulties, it is possible to set the main pro and contra statements, and these together can describe the content and promises of it.

The most divisive question regarding the BRI is it rather a business oriented proposal or a political venture. The argumentation here below suggests that clearly politics dominates the modern silk road.

[8] We can read such statements often: One Belt and One Road "holds no strategic intent to control countries along the route—the vast geographical range as well as the large number of states involved make it impossible for any single country to dominate" (Wang 2015: 100).

The first step requires a comparison of the ancient and the modern silk roads. We learned that the ancient trade route was invoked by foreign demand for Chinese silk, spices and chinaware. This organically developed network was maintained by mutual benefits of the actors and lacked investments from national budgets. This suggests a main characteristic of the modern route since it is dreamed by political leadership, financed from central budget and negotiated by official representatives of the state. As Mr. Tharoor concludes "the establishment of a modern overland and maritime Silk Road has become official Chinese policy, endorsed by the Communist Party and the National People's Congress" (Tharoor 2014: 19). In sum the BRI is a supply-based commercial system in which China's new role as a globally active power dominates cost–benefit expectations.

On the financial level, it is obvious that infrastructural investments offer very low returns and not decades, rather centuries later.[9] Since BRI includes mainly infrastructural constructions, it suggests that the opportunity cost of these initiations are that much high that it is difficult even to believe that BRI would be a for-profit project.

Transportation capacity may provide an additional charge for traded items. We have to keep in mind that freight trains and ships as well have a concrete maximum capacity for one-way transportation. If these capacities are fulfilled before departing from China than the question arises: will the European export's volume be equal with the imported volume. If the answer was no, then it would allocate extra transportation costs on Chinese exports paid by Western buyers. It means a weakened competitive edge compared to other goods at the European market. This comparison requires further concrete estimations.

The newly built or developed transport routes may allow faster transportation—the needed time can be reduced from 2, 5–3 weeks to 2 weeks. Competitiveness plays a key role in trade not only towards Europe but also to other destinations. The West, East and South directions are very different in their market's demand attributes and also at the real wage-based comparisons. As Godement summarises Jia Qingguo's (Jia 2015) conclusion: "China's opening to the east should be based on promoting economic upgrading by taking advantage of East Asia's advanced science and technology economy. To the west and south, China's main objective should be to promote an economic boom in neighbouring countries, which would in turn further China's own economic transformation and growth as well as benefit Chinese companies and goods" (Godement and Kratz 2015: 9). A for profit BRI concept must not neglect these policy level considerations. The extent of these ideas appearance in real trends will offer further deductions of Beijing's interests along the Silk Road.

A usual accuse against BRI is that it offers credits to developing countries which inherent part is that they will be never paid back. The compensation can be to provide complete control of infrastructure or territory—as it already happened in a few cases (e.g. Hambantota harbour in Sri Lanka).

[9] The Budapest–Beograd railway needs such volume of investment that may be balanced in 130 years based on the most optimistic estimations though other analyses suggests 2400 years (Mészáros 2017).

Probably the most important aspect of the BRI is related to security policy. As the already quoted paper from Wang states it "promotes China-EU cooperation in preserving Silk Road safety, thus it may also contribute to scale-up the European position in the NATO, and ultimately help balance the development of transatlantic relations" (Wang 2015: 106–107). Wang is right in mentioning the security policy view-point but its main contribution is not at the transatlantic part but in Eurasia. This comprehensive infrastructural network transits those countries which mean the highest risk to bring an internationally expanding set of hostilities. Thus BRI necessitates a Chinese–European controlling watch over these turbulent and politically unstable lands. Subsequently BRI is the physical infrastructure which allows the two Eurasian giants to intervene and moderate future evolving conflicts (Sárvári and Szeidovitz 2016).

Another security policy attribute of BRI reflects on China's limited possibilities of military manoeuvres on sea. The opium war's experience and the constant presence of US forces nearby Chinese coasts enforces another orientation for Chinese generals. Looking towards the heart of the country is a modernisation of Mao's Third Front strategy. It prepared the country for a possible (e.g. Russian) invasion during the Cold War. In case of a warfare, important production capacities and people could be fast reallocated to territories far away from the Soviet borders and from the ocean. The railroads of BRI can offer the same flexibility in case China would be in danger.

Besides the international aims BRI "undoubtedly has a domestic motive as well, rooted in the growing prosperity gap between eastern and western China" (Tharoor 2014: 19). Tharoor points on a very impart inherent element of the initiative. During the reforms after 1978 Deng Xiaoping's theoretical mistake was that he combined the catch up process with fast growing inequalities. The widening income and wealth gap favoured cities and the coastal areas stirring up tensions. BRI allocates production capacities, factories to the poor areas answering not only the above-mentioned security policy strategy but to demonstrate efforts for balancing welfare differences within the country.

Summarising the above points, it should be highlighted that by the BRI China aims to use market rules for observing the (potential) conflict zones in Eurasia. It also targets to develop its poor regions (mainly on the West and rural territories) by channelling them into the world market. BRI also serves as a physical infrastructure along which China can take more responsibility on Eurasia's stability and developing process. Since it may be carried out in cooperation with the EU, this initiative unifies China's peaceful development and its foreign policy. This joint effort manifests the above-detailed attribute of twenty-first century, namely the remaining dominance of Western standards in values of international cooperation and the power dynamism as it constantly moves Eastward meaning orientation to the East (Gervai and Trautmann 2014). This strategy is accommodated with the concept of coevolution which is the topic of the next chapter.

4 Coevolution

The rapid development of China necessitates a shift in international power to reach a new equilibria which fits to the current political economic sources of the actors. This invokes the dilemma: will it happen in a cooperative way or China should turn to be hostile to grab its new position. The previous means a US led redistribution of capabilities towards China meanwhile the USA still preserves the role of global leader but never more as a hegemon (Nye 2013). The latter is a G2 competition (rivalry among the globally top two actors similarly to the Cold War) which is a zero sum game. This way offers a dramatic scenario which inspired Fukuyama to link a parallel historical scenario. He believes that "the analogies between China and pre-WWI Wilhelmine Germany, while obviously oversimplified, are correct in one essential sense. Like Germany after 1871 but unlike either Nazi Germany or the former Soviet Union, present-day China is not an imperialist power with unlimited global ambitions, nor is it driven by a millenarian, universalistic ideology. It is, however, a very big and rapidly rising power, and adjusting to such a dramatic rise is one of the most difficult things for an international system to accomplish" (Fukuyama 2014: 1). Kissinger's answer for how to accomplish this adjustment is coevolution.

Coevolution is the vision of an informal partnership between the USA and China; hence, Kissinger sometimes uses Pacific Community as its synonym. It relies on "the hope that the United States and China could generate a sense of common purpose on at least some issues of general concern. That common purpose could eventually take the form of a coevolution of two societies progressing on parallel, though not identical, tracks" (Kissinger 2011: 543). Nazi Germany and the Soviet Union gained power and targeted change in world order through warfare. Unlike the USA at the dawn of the Cold War which ended without a direct war between the rivals. The concept of coevolution accepts the criteria that the change in world order must be peaceful; hence, it offers a framework in which China may be accommodated as a global leader in proportion to its capabilities. However, this idea focuses mainly on the Pacific giants but does not exclude other actors from its adaptation. As Kissinger expresses that: "One goal of coevolution, therefore, would be to ensure that the United States and China pool efforts, with each other and with other states, to bring about an agreed world order" (Kissinger 2011: 543).

History is the proof that Western actors are able to build up and lead global order and its peaceful shifts. It is an important challenge to realise may China share this approach based on its own traditions or requires one-sided adaptation of Western policies. The global positions of China may be understood only if we examine it through its own cultural heritage. Here below we will argue that the norms of the Chinese high culture accommodate with coevolution hence China may reach the new international equilibrium on a Chinese way.

The term Chinese high culture may be misleading since it is far not a homogenous unit. On the cooperative and peaceful side, Confucianism and Daoism may be highlighted meanwhile on the aggressive side Legalism means the antecedent.

As Fukuyama (2011) highlights China was the first civilisation which formulated a modern state. On the contrary, this state so far never reached the level of transparency at which the leader may be impeached. This is mainly built upon Confucian teachings where stability dominates mobility. Thus, Confucianism became the philosophy of the empire and unity. One practical level of this linkage is that Confucianism became the ideology of the Chinese bureaucracy, the mandarinate. This static system provided foundation to interconnect mandarinate and class struggle. The Confucian approach emphasises that the right decisions of the emperor appear in the harmony of nature. If nature lacks harmony, it suggests that the decisions were not right and it means a need for change in leadership.

"Emperor strayed from the path of virtue, All Under Heaven would fall into chaos. Even natural catastrophes might signify that disharmony had beset the universe. The existing dynasty would be seen to have lost the 'Mandate of Heaven' by which it possessed the right to govern: rebellions would break out, and a new dynasty would restore the Great Harmony of the universe" (Kissinger 2011 15–16).

The Mandate of Heaven meant a state level flag check of good governance. Tianxia ("*all-under-heaven*") is a similar but more holistic term. It also combines the righteous of decisions with the harmony of nature but directly links it to the whole known world (Sárvári 2017). In that way, it offers the possibility to apply it on wider and wider territories (even globally) as technology allows to control larger areas (Gervai and Trautmann 2014; Zhao 2006, 2009).

The main similarity between Confucianism and Daoism is that both of them express an abstract natural rule. However, there are many differences as well. The natural rule in Confucianism links the will of heaven to real manifestations, meanwhile in Daoism it reflects on the concrete power centre. A main attribute of Daoism that it opposed the Confucian rituals and rules. Its radical position was the realisation that the world does not need a leader but freedom and individualism for spontaneity and the lack of influence. Oppositely to Confucianism it tried to establish direct link between different ends of power, undermine static social barriers and enhance mobility within the society. This quite anarchic approach did not support the institutionalisation of Daoism and it could not formulate an official negotiating or lobbying partner for leadership but it emphasised the missing element from Confucianism to support development. It led Daoism to become the complement ideology of Confucianism.

The legalist tradition led the geographic expansion during the Qin-dynasty (221 to 206 BC). Its main goal was to stabilise and maintain the power of the emperor. Meanwhile, it emphasised the role of law and rights these meant barriers only for the people but not for the ruler. A typical attribute of Legalism is that it positioned itself as a counter philosophy to Confucianism and Daoism. Its aggressive and biased interpretation built up a highly centralised state which brought significant suffering for the people. This regime is often referred as a prototototalitarian system (Fu 1996) and in that way the predecessor of the Maoist period. (It is important to highlight that even the Mao-type leadership was not an import from the Soviet Union but relied on Chinese experiences.) The relevance of the Legalist tradition in the twenty-first century is the fact that this is the source of the radical Chinese standpoints which aims to completely transform the existing world order instead of cooperatively altering it.

On the one hand, Confucianism and Daoism jointly represent the Chinese traditions which may be the sources of coevolution. On the other hand, Legalism denies the concept of extracting mutual benefits but focuses on the maximisation of private gains by collecting them from others.

5 Conclusion

The EU–China relations gained Janus-face in the twenty-first century as only major member states are worthy for managing their relations with Beijing on a bilateral level. China led all other countries into different groups of regional talks. Regarding each of the regional level cooperation "there is no doubt that it constitutes a form of competition to EU-derived funding and projects" (Godement and Vasselier 2017: 68).

In this chapter, we highlighted the 16 + 1 cooperation which predates and overlaps with the Belt & Road Initiative. These negotiations have their economic profile but we argued that political dimension dominates them and not the economic rationale—more precisely such geopolitical goals which compete with other leading Eurasian powers. "Consequently, the EU, the US, Russia, Turkey, and China have overlapping and rivaling geopolitical and geo-economic interests in these parts of Europe" (Gerstl 2018: 40). This international rivalry and China's steps are not per se threatening the cohesion of the EU but still mean a challenge for it that Brussels has to continuously monitor. The real danger for EU is if China achieves to create strong regional forums that lead the Union level institutions onto a no men's land where the EU has no effective power on shaping the member states' relation with China. In a subchapter, we detailed China's relation with Hungary and the special attention Beijing gives for more than half century to the Hungarian experiences. We showed that this tie has more than academic or historical relevance since it shapes real economy decisions more than ever before.

This chapter embedded the 16 + 1 cooperation and the Belt & Road Initiative into the China–Europe relations and also into China's geopolitical strategy. Since the BRI is a supply-driven, politics generated project, it will not keep cultural or soft power-level content as subsidiary but apply all related activities to transfer China's image about the future of international arena. This image significantly depends on Chinese high culture: "the modern Silk Road's establishment will also mark a step toward reinvigorating the ancient Chinese concept of tianxia, in which the Chinese emperor was considered the divinely appointed ruler of the entire known world" (Tharoor 2014: 21).

Hence, we paid attention to the three main pillars of Chinese cultural tradition as sources of formulating the Chinese image of international relations. Meanwhile, Confucianism may serve well a sustainable and cooperative global governance, and Daoism may stabilise this structure by generating local agreements and linking the local actors to the main stream. Legalism means more than a simple risk for the existing global institutions, concretely an image of an unbalanced leadership that will be surely rejected by the Western countries.

China is a new actor in global decision-making but has everything in its tradition and experiences to act as a responsible and cooperative partner of the existing ones. Not the sudden advance of China is the threat for international relations but if other actors do not create and offer the space which China is worthy to take. To avoid this mistake, we have to pay equal attention to Chinese high culture and current decisions as well.

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A Test Case for Europe: Sino-Italian Relations in the 'Old' and 'New' Cold War

Enrico Fardella and Caterina Favino

Abstract This chapter considers the evolution of Sino-Italian relations since the founding of the People's Republic of China in 1949, until today. The chapter will be divided in four sections: an analysis of Sino-Italian relations in the emergence of the Cold War structure in 1950s and 1960s; an account of the development of bilateral relations from the establishment of diplomatic relations in 1970 until the end of the Cold War with a special focus on the 'golden era' of Sino-Italian relations in 1980s; and a description of Italy's failed attempt to consolidate its share in the growing Chinese markets in the post-Cold War era. Finally, a session will be dedicated to the most recent evolution of Sino-Italian relations during Xi Jinping's leadership, concluding with a set of policy prescriptions for a reassessment of Italy's China policy in the framework of the so called 'New' Cold War.

Keywords Sino-Italian relations · Old and New Cold War · Golden era · 'New Cold War' era

Among the many threads that compose the matrix of history, some of them gain or lose intensity according to the *Zeitgeist* that generates the perspective of the observer. In the last seventy years, the People's Republic of China has moved from the periphery to the centre of the international system becoming one of the main engines of transformation of the system itself. Looking back at the twentieth century through this prism then—with the privilege of those who knows how the story ends—we might be attracted by three specific threads that seem animating the mechanic of this transition: the demise of European centrality, the hegemony of the superpowers and the rise of the developing world. These three movements somehow embrace the flow of power distribution across the century. The end of the Second World War preluded to

The authors are particularly grateful to the support provided for this research by the Turin World Affairs Institute.

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Y.-C. Kim (ed.), *China and the Belt and Road Initiative*, Understanding China,
https://doi.org/10.1007/978-3-030-86122-3_11

the bipolar condominium of the superpowers at the expenses of European imperialism and led to a sudden proliferation of new actors in the former colonial territories. The rise of the People's Republic of China is certainly the most successful component of this dynamic. The anti-hegemonic physiology of PRC politics led to a set of strategies aimed at breaking the monopoly of the superpowers and transform China and the developing world in the new demiurge of global dynamics. In this antagonist nature between the third and the second movement, the demise of European centrality—the first movement that described the twentieth century's power dynamics—was then perceived by Mao's China as an instrumental partner in the global struggle for power redistribution.

At the beginning of the Cold War, Mao's China did not yet have the capacity to exert direct influence on Europe. According to the division of labour agreed with the Soviet Union in 1950, China was meant to promote the revolution in Asia. The Chinese leadership, however, shared a vision of China's role in the international system that transcended the bipolar logics of the Cold War. In fact, it identified itself as a champion of an 'intermediate zone' whose independence was restrained by the hegemonic pressures of the superpowers.

Within this "intermediate zone", the developed countries of the European bloc were perceived by Beijing as "indirect allies" with which China could collaborate to dilute the hegemonic strength of the superpowers and at the same time import useful know-how to strengthen its economy.

The momentous growth of the Chinese economy since the end of the 1970s and the strategy to promote Chinese investments abroad developed by the Chinese government since the end of the 1990s has progressively improved the 'proximity' of Europe and China, allowing China an even greater capacity to influence the dynamics of this "intermediate zone". The launch of the Belt and Road Initiative (BRI) by President Xi Jinping in 2013 signalled not only China's awareness of its unprecedented capacity to shape global dynamics but also its ambition to create new ones.

In this framework then Sino-European relations seem gaining a powerful light. Their strategic relevance goes beyond the volatile contours of the bilateral relations, and de facto reverberates over the decisive factors that shape global power distribution.

In this regard—given the historical dominance of Paris and Berlin on EU politics—Sino-Italian relations may appear as 'peripheral' and therefore marginal. A closer look at this smaller thread of our recent history, however, reveals an experience that might emerge as a useful paradigm for the future of Sino-European relations. In the Cold War framework, Sino-Italian relations—alongside Sino-French relations—stood as fruitful element of cooperation in the 'intermediate zones' favouring at the same time China's 'socialisation' with the international community—marked by China's accession to the UN—and a progressive multipolarization of the international system.

Since 1990s, Chinese economic growth and Beijing's investments in logistics and maritime infrastructure have played a decisive role in the exponential increase of incoming freight traffic in the Mediterranean and in the capacity of regional ports to absorb and sort it, thus giving the region a new 'centrality' in international trade. In this context, Italy has found itself caught in between the natural propensity—inspired by its geography—to absorb and manage this traffic and its loyalty to the NATO and EU that have recently perceived these alluring opportunities as a Trojan horse of Chinese systemic challenge to the Western liberal order.

If Italy's remedy to this conundrum is yet to be found, a journey through Sino-Italian relations in the last seventy years might help us confirm once again that *historia est magistra vitae.*

1 Navigating the Cold War: Sino-Italian Relations in 1950s and 1960s

Since the founding of the People's Republic of China, the Italian government had consistently shown a desire to recognise the new government in Beijing. In February 1950, Italian Foreign Minister Carlo Sforza sent a telegram to Zhou Enlai in which he expressed the intention of the Italian government to normalise the relations with the PRC.[1] At first, the USA seemed willing to let the European countries make the first move and were thus preparing American public opinion for what was perceived as an inevitable step[2]—the US's own normalisation with the PRC. Yet, the political climate would soon change drastically due to the events during the first half of the 1950s. The Sino-Soviet alliance, McCarthyism in the USA, and the outbreak of the Korean War suddenly stopped Italy in its tracks. These events symbolically marked the beginning of Italy's China policy, and its long-term effort to bypass the restraints imposed by the Cold War on the independent pursuit of its national interest. Since then, Italy looked to China as an opportunity to gain leeway and a stronger standing among its allies in the NATO system. To Beijing, the relationship with Italy was not important in itself. China's policies towards European countries were driven by China's position towards the two main superpowers, the Soviet Union most of all. Between 1949 and 1956, China steered away from European affairs and mainly toed the Soviet line. Emerging frictions with the Soviet Union led China to engage in Europe as confirmed by Beijing's role in Poland and Hungary in 1956.[3] It marked the beginning of China's competition with Moscow in Europe. It was rather low-key in Eastern Europe: through the *Interkit* system, Moscow coordinated the China policy of its satellites at the highest level and all Eastern European countries had major limitations in developing an independent China policy until the beginning of the 1980s. The only two countries that showed greater autonomy in their stance towards China were Romania and Albania.

China's policy was much more aggressive on the other side of the Iron Curtain: as the tension with the Soviets progressively heightened, the relationship with Western Europe became an important part of Beijing's strategy to ease Moscow's threat in

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[1] Mario Pini, Italia e Cina, 67.

[2] Ibid., 70.

[3] Chen (2001).

Asia. Western Europe, according to Beijing, was the focal point. As the Chinese foreign minister told Kissinger in 1975 'if the Soviet Union could not get hegemony over it, it could not control the world'.[4]

At the same time, normalisation with the United States' European allies was instrumental in undermining the US-led front of non-recognition, isolating the ROC and favouring Beijing's entry at the United Nations (UN).[5] A first success came in 1964 when Mao and De Gaulle's quest for multi-polarity found common ground, resulting in mutual recognition.[6] The emergence of the Soviet 'social-imperialist' threat in 1968 drove China to normalise its relations with other Western countries.[7] From the 1950s, Italian governments repeatedly sought to establish diplomatic relations with the PRC, but the US veto and the unflinching position of the PRC on the terms for mutual recognition greatly curbed the scope of their action. Unlike the UK or France, Italy did not have any specific interests in Asia and was more dependent on Washington and its containment policies towards China than either of those European powers.[8] Nevertheless, in 1964, three new factors emerged, paving the way for a Sino-Italian rapprochement: the Sino-Soviet split; De Gaulle's courageous initiative towards Beijing; and the beginning of the centre-left season in Italy, with the Italian Socialist Party (PSI) playing a key role in this effort. These factors led to the opening of a commercial office that served as a de facto embassy. Yet, proper normalisation still failed.[9] China's role in Indochina proved to be an insurmountable obstacle, and Washington left no leeway to governments in Rome to formally recognise a country that was killing US troops in Vietnam.[10] The window of opportunity for normalisation came in 1968 with the heightening of tensions in the Sino-Soviet conflict, which

[4] Memorandum of Conversation, Washington, 12 August 1975. Ford Library, National Security Adviser, NSC Staff for East Asia and Pacific Affairs, Convenience Files, 1969–1977, Box 39, Richard Solomon Subject Files, 1974–76. Secret; Nodis. Drafted by Gleysteen.

[5] MOFA: 110-00605-01 (25 June 1955), 'Industrial Italian Delegation to China', Ministry of Foreign Affairs (MOFA) to London Embassy; MOFA: 110-01765-01 (4 December 1964) 'Sino-Italian Relations', Bern Embassy to MOFA. On China's entry into the United Nations see: Masina (2012).

[6] Enrico Fardella, Christian Ostermann, & Charles Kraus, *Sino-European relations in the Cold War*, 203.

[7] According to Romanian Amb. Budura, the Cultural Revolution aimed in fact at correcting the distortion of the *yibiandao so,* as Li Danhui put it, the 'social-imperialist' label served as the theoretical basis for Mao to make strategic adjustments that were functional both for Beijing's security and for independence. Ibid. 28 and 74.

[8] For a detailed account of the negotiations between China and Italy in the 1950s and 1960s, see Fardella (2013).

[9] Ibid.; See also MOFA: 1110-2011-011 (10 June 1964), Memorandum of Conversation: Chen Yi-Vittorelli. Chen Yi said that the office would represent the government and would have diplomatic status (代表政府, 具有外交身份, *daibiao zhengfu, juyou waijiao shenfen*), but not in an official way. This could push the ROC to recall its ambassador and pave the way for normalising relations between Rome and Beijing. According to Chen Yi, Italy and China had the opportunity to create a new 'Sino-Italian model for normalization' (我们创立中意方式*, women chuangli Zhong Yi fangshi*).

[10] Because of the conflict in Vietnam, the Chinese thought that the USA had forced the Italians to cool down the political side of their relation with the PRC. MOFA: 110-01902-01 (15 December 1965), 'Change in Italian diplomacy', COR to MOFA. In January, the leader of Christian Democrats Amintore Fanfani, who worked for normalisation with Beijing, told the Chinese diplomats that

resulted in a turnaround in Beijing's foreign policy towards Vietnam and the West, the USA included. Mao tamed the ideological tension of the Cultural Revolution and progressively engaged with the West to form a united front against Moscow.

Of course, this also called for a more appeasing stance on the Taiwan issue. When negotiations with Italy began in February 1969, the Sino-Soviet conflict had not yet reached its climax and Beijing, encouraged by the eagerness of Italy's Foreign Minister, Pietro Nenni, to normalise relations, adopted a maximalist approach with Italy.[11] The final round of negotiations was conducted by Aldo Moro, Italy's new foreign minister and one of the leading figures of the Italian Christian Democrat Party. Moro was much more sensitive to Washington's stance, making him more cautious about the form of deal.[12] The conflict with the Soviets, however, degenerated, and by autumn 1969, the USA secretly sided with Beijing and avoided a Soviet strike.[13] As a result, the Chinese accepted the offer to table high-level talks without preconditions over Taiwan.[14] This was matched by the dropping of some of China's more radical demands for normalisation with Italy, namely separating progress in talks from the issue of Italy's relations with Taiwan and Italian support of the PRC at the UN.[15] Beijing's' opening resulted on 6 November 1970 in Italy's recognition of the People's Republic of China as the sole government of China by taking note of the PRC's 'declaration' of its rights over Taiwan. The final wording was actually a last minute concession made by China: just a few days before Canada had recognised Beijing and acknowledged Beijing's 'position' on Taiwan. The difference was subtle, but the Chinese were seemingly sending a message to Washington on a viable path for recognition.[16] As the Chinese ambassador to France, Huang Zhen, plainly admitted to Italian diplomats in September, negotiations with Ottawa and Rome were "test cases" to create a precedent that could be used with other major powers like the USA or Japan.[17] From Beijing's perspective, normalisation with Italy was a step on the path to rapprochement with the USA, as the hegemonic threat of socialist

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the tension caused by the Vietnam War prevented them from normalising their relations. MOFA: 110-01899-01 (20 September 1965), "Sino-Italian relations", COR to MOFA.

[11] The Chinese posed three conditions for normalising relations: (1) recognition of the PRC as the sole legal government representing the Chinese people; (2) recognition of the province of Taiwan as an integral part of the Chinese territory and the dissolution of all relations with Chiang Kai-Shek's China; and (3) support to the PRC in the pursuit of its legitimate rights within the UN and suspension of any support to the "Chiang Kai-shek clique". ASMAE (no date, probably 5 May 1970), 'Sino-Italian negotiations for the mutual recognition', a. Gabinetto to Moro.

[12] Moro wrote that Nenni gave the Chinese everything they asked for without specifying who 'should state what and how it should be stated […] This is the core of the dispute. We have to figure out whether we should formally declare or carry out in practice what Nenni had already promised [i.e. discontinuing relations with Formosa and vote for the Albanian motion]', ASMAE (8 November 1969), Moro's note on a. n. 061/429, Gaja to Moro.

[13] Henry Kissinger, *On China*, 217–219.

[14] Ibid., 223.

[15] ASMAE (28 November 1970), 'Establishment of the diplomatic relations between the Italian Republic and the PRC', DGAP (no name). See also Mario Pini, *Italia e Cina*, 119.

[16] See Footnote 15.

[17] See Footnote 15.

imperialism became predominant. It was a major diplomatic success for Italy: as ambassador Menegatti put it, normalisation with Beijing was a success of the universalist inspiration of Italian diplomacy - the universal right to emancipation of peoples in the case of the socialist Nenni, and Christian universalism in the case of Moro—was reflected in the effort to pursue inclusion, dialogue and strong support for the United Nations.[18] Furthermore, the ability to reach this goal before the USA and right after France was proof of a certain independence of Italian diplomacy and sent a positive message to the Chinese. At the same time, under to shrewd guidance of Minister Moro, Italy managed not to annoy Washington in the final stage of the negotiations.[19] At that point, Washington's main concern was not so much recognition, but the repercussions on Taiwan's seat at the UN. There were two different contrasting motions at the UN on the Chinese seat. One was a US procedural motion that treated it as an "important question" and called for a two-thirds majority to approve it. The other was an Albanian motion that called for a simple majority to give the PRC the seat held by the ROC. The support to the US motion had prevented so far the success of the Albanian motion, preserving US prestige within the UN and its defence of Taiwan's image. Italy had always voted in favour of the US motion and against the Albanian one. A few days before recognition of the PRC, Italy decided to keep supporting the American motion and simply abstaining on the Albanian one showing consideration for Washington's concerns. This position emerged again in October 1971 with the PRC's admission to the UN: the Italian government had to support the Albanian motion as a consequence of the recognition of the PRC and ultimately opted for abstaining on the 'important question' to respect Washington's *desiderata*. This time, though, Italy's diplomatic balancing act proved to be rather inconsistent when compared to the firm opposition of other European countries, such as France and the UK, to the American motion. Similar inconsistencies continued to characterise Italian diplomacies towards Beijing in the early years of official relations.[20]

2 The Golden Era of Sino-Italian Relations: From Normalisation to the End of the Cold War

Right after normalisation, the Italian Socialist Party (PSI), the main advocate for the recognition of the PRC, pushed to show Italian public opinion that the relationship with Beijing could be a great opportunity for the Italian economy. Following a commercial agreement signed with Beijing in 1971, the first of this kind within the European Community, Italian exports to China rose markedly.[21] The agreement

[18] Menegatti (2012).

[19] Enrico Fardella, Christian Ostermann, & Charles Kraus, *Sino-European relations in the Cold War,* 78.

[20] Mario Pini, Italia e Cina, 146.

[21] The agreement established a mixed commission that aimed at evaluating efficient measures to expand bilateral trade and cooperation.

symbolised Italy's willingness to eliminate quantitative restrictions to trade with China and to expand and stabilise commercial flows. Nevertheless, structural flaws in bilateral trade and growing competition from other countries impacted Italian exports to China. Consequently, Italy's presence in the Chinese market shrunk. In the early 1970s, a new world was emerging and China was increasingly at its centre. Italian foreign policy in Asia lacked the same breadth of British and French diplomacy. Italy was mainly a bystander, as it watched China's rise in North Africa and the Mediterranean—areas within Italy's traditional sphere of influence. The progressive ebbing of Chinese support to revolutionary movements in the region and an emerging pragmatic approach in Chinese diplomacy to North Africa and the Middle East seemed to match Italy's interest and search for stability. In this context, the Sino-Soviet rivalry was an opportunity for Italian diplomacy to gain more leeway and ward off the threat of a 'progressist' exclusive zone of influence—whether Chinese or Soviet—in Africa.[22] The anti-Soviet rationale of the new Chinese strategy in the 1970s, however, eventually clashed with Italy's support to a détente in Europe and in the Mediterranean. As the Italian Foreign Minister Giuseppe Medici experienced during his visits to Beijing in January 1973, growing attrition was emerging between Italy's ecumenist approach that pursued a dialogue with all actors—an approach in line with the emerging climate of détente in Europe—and Beijing's confrontational stance towards the Soviet threat. This conflict deepened during the negotiations at the Conference on Security and Cooperation in Europe from 1973 to 1975 and the signing of the Helsinki Final Act. Beijing feared that the success of the CSCE would allow the Soviet Union to divert its attention to Asia—and China first and foremost—and vented its criticism of Europe's logic of détente. The Chinese opposition to the CSCE talks—perceived by Beijing as a threatening model that the Soviets might try to apply also to Asia to impose their hegemony—conflicted with Italy's support to the détente as an opportunity to benefit politically and economically from relations with the Soviet Union, especially in terms of energy supplies, a crucial need for Italian security after the embargo that followed the Yom Kippur War in 1973.[23] The same thirst for energy in 1977 drove the Italian foreign minister of the time, Arnaldo Forlani, together with the president of Italy's main oil and gas company, ENI, to rush to Beijing in June 1977 right after the completion of a second terminal for oil exports in Dalian. Between 1973 and 1976, Sino-Italian imports and exports grew by 96%, but the total value was still quite modest if compared with other Western countries. This was mainly due to the scarce complementarity of the economies of the two countries and the negative economic conjuncture of those years that restricted the capabilities of the medium-sized Italian enterprises to promote themselves in the Chinese market. Furthermore, Beijing's traditional aversion to foreign credit limited the total volume of imports. Nonetheless, the growth of the Chinese oil sector seemed to be a promising opportunity at the time, providing

[22] OVM-1973, Politica Cinese in Africa.

[23] OVM-1973, La Cina e l'unificazione europea; Cina: Mediterraneo e Medio Oriente. See also Mario Pini, Italia e Cina, 160-1.

revenues for it to invest in Italian energy technologies.[24] At the time of Forlani's visit to Beijing, there were still political divergences on the détente process and the CSCE, but a new positive juncture both in China and in Italy seemed to offer broader space for Italian diplomacy. In China, Deng Xiaoping, after his rehabilitation in July 1977, began his race to take control of the Party and launch his Reform and Opening. With his economic reform, Deng Xiaoping expanded Mao's opening to the West into a symbiotic relationship that linked China's growth to cooperation with international markets. This offered a window of opportunity for Sino-Italian relations: Italy, one of the most industrialised and developed countries in the West, could make up for its diplomatic flaws with robust support to the transformation of China's economy. The Italian political situation also seemed favourable to stepping up economic cooperation with China. The third Andreotti government, elected in 1976 with the external support of the Italian Communist Party—called '*governo di solidarietà nazionale*' (national solidarity government)—aimed at proving to the USA that they were not giving in too much to the Communists and their allies in Moscow, while concurrently pushing for broader cooperation with Beijing.[25] In those years, the consolidation of Sino-American strategic cooperation against the Soviets through Zbigniew Brzezinski's manoeuvres favoured military contacts between China and Europe.[26] In 1978, a Chinese mission led by the vice-head of the Chinese army Zhang Aiping—the former—'father' of the PRC's nuclear weapon—was received by senior Italian army officers. Zhang toured Italian security infrastructures for two weeks and attended military exercises in Sardinia.[27] These events raised deep concern in Moscow, and in December 1978 the Secretary of PCUS Brezhnev wrote a letter of protest to Italy's Prime Minister Andreotti stating that military cooperation with China violated the logic of détente and marked a threat to global peace.[28] The strategic entente between Deng's new grand strategy and Brzezinski's confrontational attitude towards Moscow eventually altered the détente logic in Europe. Many in Europe saw Chinese diplomacy as potentially risky: according to Italian and Polish diplomats for example, Beijing's friendly relations with Romania, celebrated by Premier Hua Guofeng's visit in 1978, risked tightening Moscow's grip over the rest of Eastern Europe to

[24] OVF-1977, Elementi di Sintesi per le conversazioni con i dirigenti della Repubblica Popolare Cinese: Rapporti Bilaterali e Questioni economiche. For the data on import–export (calculated in millions of lira): 1973 total volume 119.266; 1976 total volume 233.755. OVF-1977, Questioni Economiche: scheda statistica, 24.

[25] Mario Pini, *Italia e Cina*, 172. In those months, Beijing was looking with great interest at Italian domestic politics and in particular at 'Eurocommunism'. Although China officially considered the Italian Communist Party revisionist, as observed by the Italian diplomats at the time, Beijing seemed ready for a re-evaluation of the nature of the relationship between the PCI and Moscow (in the same way as they did with the Yugoslav 'revisionists'). OVF-1977, Colloqui politic: politica interna, 6.

[26] Shambaugh (1979).

[27] Memorandum, Situation Room to Brzezinski, May 2nd, 1978, Folder 2, Box 6, Brzezinski Material- President's Daily Report File, Jimmy Carter Library.

[28] Mario Pini, Italia e Cina, 172.

stop any emulation of Bucharest's independent policy.[29] As proven by Brezhnev's reactions to the Sino-European arm deals, the allure of the Chinese market on Europe facilitated Beijing's strategy. Italy walked a thin line trying to balance the partnership with China with the détente process with Moscow: according to Italian diplomacy, heightened tensions with the Soviet Union were potentially destructive for the process of European détente and integration, both of which were the pillars of Italian diplomacy.[30] Italian domestic politics seemed to respond to the changes at global level. The experimental governments of 'national solidarity'—with the external support of the PCI—ended in June 1979, and Francesco Cossiga, a Christian Democrat, formed a new government rehabilitating cooperation with the Socialists. It was a positive signal for Beijing, as the Socialists had proven to be favourable to Beijing's interests until then.[31] Cossiga's cabinet favoured a tougher line towards the Soviet Union, and his approval of the deployment of Pershing missiles seemed well received in Beijing. Cossiga's decision came at a critical moment for China, as the Soviets' invasion of Afghanistan posed a new threat to Beijing's border security and confirmed China's fear of Soviet expansionism. The 1980s were the 'golden age' of Sino-Italian relations, boosted by rapid growth in economic cooperation and the Socialists' presence in the Italian government. The level of Italian investments in China grew exponentially through the so-called *cooperazione allo sviluppo*, a system of foreign aid for developing countries launched by Rome and Beijing with a three-year deal (1982–1984). Under this agreement, Italy would invest USD 48 million in the construction of strategic infrastructure—developed in partnership with Italian companies—and would donate USD 25 million in Italian goods crucial for the development of the country.[32] The growing flow of money into these projects by the Italian government—USD 576 million between 1987 and 1989—proved to be a precious instrument for penetrating the Chinese market, and by the end of the decade Italy, already the single largest donor to China, became Beijing's second largest European trading partner after Germany.[33] There were frequent top-level visits in those years as a sign of a growing trust in bilateral relations. In 1984, Chinese Premier Zhao Ziyang, after the end of the National People's Congress that re-launched Deng's reforms, toured Europe in search for 'money, solidarity and weapons', as an Italian reporter wrote at the time.[34] In Italy, Zhao signed a deal with FIAT to build trucks and industrial vehicles and, in line with one of the key decisions taken by China's Parliament on

[29] OVHH-1978, Repubblica Popolare Cinese: rapporti tra la RPC e i paesi del patto di Varsavia (tranne l'Urss). Elementi di conversazione; Elementi di fatto.

[30] OVHH-1978, Repubblica Popolare Cinese: rapporti RPC-Costruzione europea.

[31] In a meeting with Deng in October 1975, Kissinger complained that the Christian Democratic leadership in Italy was very weak and that the Chinese could be helpful with the Socialists in order to oppose the compromise with the Communists. Deng said that he personally believe that the so-called historic compromise could not succeed, Ford Library, National Security Adviser, Kissinger Reports on USSR, China and Middle East Discussions, Box 2, China Memcons and Reports, 19–23 October 1975, Kissinger's Trip. Top Secret; Nodis.

[32] Mario Pini, Italia e Cina, 190.

[33] Samarani et al. (1987).

[34] Terzani (1984).

the eve of the official visit, asked Italian support for the modernisation of the PLA.[35] Zhao's request was met, and one year later, the Italian Defence Minister, Giovanni Spadolini, together with a large delegation, visited China to further boost Italian military exports to China—ITL 100 billion in 1984, 20% of the total value of Italian exports to China.[36] Military cooperation and the support given by '*cooperazione allo sviluppo*' drove Italian exports whose value leaped by 75% in 1985 on a year-by-year basis.[37] For the first time since normalisation, Beijing started to appreciate Italy's foreign policy symbolised by the bold activism of Bettino Craxi, the leader of the Socialist Party and Italy's Prime Minister from 1983 to 1987. Independence vis-à-vis Washington—as seen during the Sigonella crisis—Italy's pro-active policy in the Middle East peace process and Craxi's belief in a strong and unified Europe, were all elements that met China's approval.[38] Stronger bilateral relations paved the way for Craxi's visit to Beijing in 1986—the first for an Italian prime minister since mutual recognition—and the signing of the first consular convention ever ratified with a European country.[39] While the 1980s can be seen as the 'Golden Age' of Sino-Italian relations, the end of the 1980s brought a new strategic opportunity thanks to the ability of Italian Prime Minister Giulio Andreotti and of the Italian Foreign Minister Gianni De Michelis (PSI) to manage the crisis that followed the event in Tiananmen Square in June 1989. Immediately after the Madrid EU council that imposed sanctions on Beijing on 27 June, Andreotti and De Michelis who were convinced that isolation could alter the benefits of Chinese reforms showed solidarity with the Chinese government and called for the lifting of sanctions.[40] Japan and ASEAN's contacts with Beijing helped the Italian initiative and, a few weeks after taking the rotating chair of the European Community in July 1990, the EC Council lifted some restrictions on economic and official contacts with Beijing.[41] In May 1991, Foreign Minister De Michelis visited China, the second Western Foreign Minister to do so since June 1989. De Michelis did not talk about politics, but focused his visit on trade and investments and offered ITL 600 billion in aid for the construction of Pudong in Shanghai, a development programme that promised to give Italy a strategic position in the Chinese market.[42] On the eve of 1992, Italy seemed to be one of China's main partners, as the visit of Premier Li Peng, in January, the first to a Western country since the Tiananmen crisis in 1989, clearly signalled.[43] A few weeks later, however, the *Mani Pulite* corruption scandal broke out, wiping out Italy's political establishment and in particular the two parties that had favoured dialogue with Beijing, the Christian Democrats and the Socialists. As De Michelis said, Italy's

[35] Benetazzo (1984).

[36] Jacoviello (1985).

[37] Pavolini (1987).

[38] Jacoviello (1985).

[39] Mario Pini, Italia e Cina, 192-3.

[40] Caracciolo (1995), Coralluzzo (2008).

[41] De Michelis (1990). The arm embargo was not included.

[42] Lucio Caracciolo 'La Cina: Istruzioni per l'uso'. 209.

[43] 'L'Italia è ora seconda tra i partner europei' in *La Repubblica*, 26 January 1992; Ansaldo (1992).

role in China was one of the main victims of this scandal. The internal collapse of the Italian political system froze Italian diplomacy: the Ministry of Foreign Affairs stopped the '*cooperazione*' programme, Pudong included, and for three years, the Italian Ministry of Foreign Affairs did not pay a visit to Beijing.[44] Bilateral relations between Rome and Beijing have never recovered since. The images of Italian ambulances in Tiananmen in June 1989—a symbol of the success of Italian aid to China—are now just a curious postcard for historians.

3 No Place in the Sun: Italy's Unfruitful Initiatives in China After the Cold War

Foreign trade embargoes following the Tiananmen crisis did not obstruct China's economic growth. The incident had momentarily halted the economic reforms implemented by Deng; a relief for the more conservative elements of the party who feared that China would stray too far from the canons of Marxism.[45] Nevertheless, Deng recognised the need to continue with the reforms as the economic failure would result in even greater popular uprisings and ultimately the downfall of the Party.[46] After the incident, the renewal of the Party's leadership was deemed necessary. Jiang Zemin—at the time general secretary of the Chinese Communist Party and chairman of the Central Military Commission—took over power from Deng Xiaoping and gave rise to the so-called third generation of leaders. Although Jiang's rise to power was accompanied by a generational change, he maintained firm control of the Communist Party. Jiang's commitment to continue Deng Xiaoping's programme of rapid economic transformation was accompanied by efforts to preserve the Party's legitimacy and monopoly on power. At the 14th National Congress of the Communist Party of China (CPC) in October 1992, Jiang Zemin firstly introduced the concept of a '*socialist market economy*'. Prior to being disclosed to the public, the term was first approved by Deng Xiaoping. This progressive idea of economic reform consisted of developing productive capacity by introducing a socialist market economy into the socialist system.[47] Bilateral economic relations between Italy and China remained very limited until China joined the World Trade Organization (WTO) in 2001 when, together with the intensification of trade relations, there was an increase in direct investments by Italian companies driven by lower production costs and access to the local market.[48] China quickly became the world's manufacturing hub, claiming a central role in world trade. China's integration in the global market led to significant negative repercussions for the Italian productive system, resulting in distrust of

[44] Lucio Caracciolo Ibid.

[45] Pini (2011).

[46] Ibid. 208.

[47] Lo (1999).

[48] Gabusi and Prodi (2020).

Italian public opinion towards the Asian country.[49] The public's scepticism towards Beijing, bolstered by the instability of the Italian government, led to Rome giving China marginal attention. At the end of the nineties, Italy had lost its privileged position with China. Exchanges between Italy and China amounted to 65853 Ecu, placing Italy behind France, Germany and England.[50] On the one hand, the Chinese market continued to favour large Chinese State-Owned Enterprises (SOE), and on the other hand, Italy was unable to provide the high added-value products that China was beginning to seek.[51] Consequently, between the nineties and early 2000s, Italy persistently suffered a negative trade balance with China.[52] Prime Minister Romano Prodi recognised and emphasised the opportunities that Italy had not been able to seize in its economic and institutional relations with Beijing. Described as a challenge against time, Premier Prodi led a mission to China with the intention to relaunch relations between the two countries, to consolidate a real strategic alliance and lay the foundations for stronger cooperation.[53] In 2006, the Italian Prime Minister travelled to China with four ministers (Bonino, Mussi, Bindi and Di Pietro), a deputy minister, three undersecretaries, and eleven representatives of the regions which the Premier defined as the "greatest institutional and industrial mission of our country [Italy]".[54] Organised with the collaboration of Confidustria, the Italian banking association (Abi), and the Italian trade agency (Ice), the governmental mission had a predominant economic purpose. The itinerary touched five cities, namely Nanjing, Canton, Shanghai, Tianjin and finally Beijing where the Italian government's representatives met with the Chinese leadership, including Prime Minister Wen Jabao and President of the People's Republic Hu Jintao. During the visit, Iveco, a Fiat Group company, signed an agreement with Nanjing Automotive Corporation (NAC), for the acquisition by Naveco—an Iveco Joint Venture with the NAC Group itself—of all the commercial vehicle activities of Yuejin Motor Company, a subsidiary of NAC. China was growing at an unprecedented rate. Prodi wanted to overturn the negative paradigm that had been created around China and establish a virtuous dynamic, which would have benefited the Italian economy. Prime Minister Prodi was also among the first to draw attention towards the geo-strategic advantages that Italy, gateway to the Mediterranean and Europe, could offer China.[55] Prodi's attitude contrasted with that of his predecessor, Silvio Berlusconi. The former Prime Minister was known for his close relationship with Moscow. He also shared a seemingly critical view of China, although his business endeavours may suggest otherwise. During Berlusconi's second Cabinet in 2004, Italy and China signed a '*global strategic partnership'*, thus expanding their collaborations from a strictly bilateral sphere to a global one, which involves the discussion of global and multilateral issues, as well as the Sino-European

[49] Andornino (2015).

[50] Pini (2011).

[51] Gabusi and Prodi (2020).

[52] Andornino (2012b).

[53] Il Sole 24ore (2006).

[54] la Stampa (2006a).

[55] la Stampa (2006b).

relationship. Despite upgrading the relationship with Beijing, it took another six years for Berlusconi to publicly acknowledge China's potential for Italian businesses. In 2010, Berlusconi was elected Italy's Prime Minister for a third time. In October of that same year, on the occasion of the 40th anniversary of diplomatic relations between Italy and China, Chinese Premier Wen Jiabao paid an official visit to Rome where he was welcomed by the highest offices of the State. Premier Wen met with the President of the Republic Giorgio Napolitano, Prime Minister Silvio Berlusconi, President of the Senate Renato Schifani, and the President of the Chamber Gianfranco Fini. After the institutional meetings, the two Prime Ministers participated in an Italy–China forum. The Italian Prime Minister expressed an admiring appreciation for China's international politics and the Chinese government. Berlusconi also praised the pace of growth of the Chinese economy, stating that it will soon be the first economy in the world. He continued by reassuring the Italian public regarding China's presence on the markets and its competition with Italian businesses. Instead, Berlusconi depicted China's vast consumer market as an extraordinary opportunity for Italian companies.[56] During the forum, 10 trade agreements worth 2.25 billion euros were signed between the two countries. The Chinese Prime Minister proposed Berlusconi to double the economic exchange in five years, going from 40 billion dollars to 80 billion dollars. Berlusconi aimed for an even more ambitious result. The meeting concluded with the two countries committing to increase the economic exchange to 100 billion dollars in 2015.[57] While the world was facing the devastating impact of the financial crisis, China's growth remained fairly robust. Conversely, the global recession had particularly negative effects on Southern European countries. In Italy, the sovereign debt crisis manifested itself in all its gravity at the beginning of July 2011. Several factors led foreign investors to question the solidity of the Italian budget, such as the high ratio of public debt to gross domestic product and the mistrust in the Berlusconi government's ability to deliver the structural reforms the country desperately needed. After months of tension on financial markets, Prime Minister Silvio Berlusconi submitted his resignation on November 2011. Following a crisis of confidence of market operators, Italy began to look at China as a potential investor in its government bonds, companies and infrastructures. Allegedly, Italian officials disclosed to the Financial Times that China already held 4 percent of Italy's 1,900 billion euros debt,[58] which at that time amounted to almost 120 percent of the country's GDP.[59] In September of 2011, Lou Jiwei, president of China Investment Corporation (CIC), China's sovereign wealth fund, met with Italy's former Minister of Economy, Giulio Tremonti. Although no information was officially disclosed regarding the meeting, the Financial Times reported the potential purchases of Italian government bonds by the CIC.[60] Il Sole 24 Ore, an Italian economic-financial newspaper, denied the claim

[56] Avvenire (2010).

[57] Ibid.

[58] Dinmore (2011).

[59] Andornino (2012).

[60] Dinmore (2011).

by stating that the Chinese Sovereign Fund's interest lied solely in industrial investments.[61] According to the article, the meeting was also joined by Cassa Depositi e Prestiti (Cdp), a state-controlled entity which newly established the Italian Strategic Fund (Fondo Strategico Italiano, Fsi) aimed at promoting the development of Italian strategic companies.[62] Financial markets indirectly forced Berlusconi to resign from the government, although unparalleled political pressure was exerted directly by the EU, which significantly facilitated the government transition. Following the fall of the Berlusconi administration, the financial manoeuvres launched by the new technocrat-led government obviated a devastating default. Nevertheless, the Italian economy fell deeper into recession. Against a backdrop of economic hardship characterised by stagnant internal demand, foreign demand was destined to represent an important growth factor for the economy.[63] China's twelfth Five-Year Plan (2011–15), aimed at enhancing the role of domestic consumption and foreign investment as drivers of growth, appeared as an unprecedented opportunity for Italian exports and industries.

4 Another Lost Romance? Sino-Italian Relations in Xi Jinping's Era

The rise of Xi Jinping as China's top leader in 2012 injected a profound acceleration into China's global ambitions. The design of the Belt and Road Initiative (BRI)—Xi's foreign policy signature project launched in 2013—graphically described this transformation and, for the first time in the history of the People's Republic, revealed the will to shape global dynamics through the construction of a new system of physical, digital and regulatory infrastructures aimed at promoting a new Chinese vision of global governance. The launch of the BRI was perfectly tuned with the European search for a solid recovery from the financial crisis. Between 2014 and 2015, following a period of stagnation caused by the economic crisis and Italy's political volatility, the Sino-Italian relations were therefore experiencing a new momentum. The enhancement of economic relations, combined with greater frequency of diplomatic visits, resulted in an unprecedented dynamism. The more recent Italian activism towards China began with former Prime Minister Enrico Letta who recognised the need to increase Italian export and to intensify the penetration of Italian companies.[64] Letta's successor, Matteo Renzi, continued the effort to court Beijing and further strengthened economic ties between the two countries.[65] On June 2014,

[61] Il Sole 24 Ore (2011).

[62] Ibid.

[63] Istat (2013).

[64] MISE (2014).

[65] In Italy, the Eurozone debt crisis resulted in the resignation of Prime Minister Silvio Berlusconi and the implementation of a government of technocrats led by Senator For Life Mario Monti in 2011. On February of 2013, Italians were called to the polls to determine the members of the Chamber of

Matteo Renzi conducted a high-profile tour of China with the aim of promoting bilateral economic relations. Following talks between the Italian Prime Minister and the Chinese counterpart, Premier Li Keqiang, Italy and China issued a three-year cooperation plan (2014–2016) aimed at promoting the growth of bilateral goods and service trade, minimising trade imbalance through the increase of Italian exports.[66] Although exports to China grew at an annual average of 8 percent, the Italian trade deficit exceeded 17 billion euros by 2015.[67] On the other hand, the three-year action plan was conducive to the signing of numerous commercial agreements and partnerships between Italian and Chinese companies. Later that year, Premier Li Keqiang's European tour concluded in Italy. The state visit resulted in 20 business agreements worth more than 8 billion euros.[68] Between 2014 and 2015, China's central bank, the *People's Bank of China* (PBoC), acquired 2 percent of Italian companies of strategic importance,[69] pertaining to the energy, automotive, financial and telecommunication sectors.[70] Concurrently, large Chinese State-Owned Enterprises (SOEs) entered the shareholder structure of some of the major Italian companies.[71] Combined, the Chinese financial commitment in Italy exceeded 13.5 billion euros during the biennium.[72] Although a significant trade imbalance remained, the flow of Chinese investments had a positive impact on the Italian public perceptions of China. At the end

Deputies and the elective members of the Senate of the Republic. Pier Luigi Bersani's Democratic Party (PD) received the most votes but did not have the majority in the Senate. Therefore, unable to receive the confidence of both the Senate and the Chamber of Deputies, Bersani could not take office. Following a series of failed formal talks, with none of the major parties able to form a coalition, Italian President Giorgio Napolitano appointed Enrico Letta as the country's Prime Minister. Ten months after having been appointed, Enrico Letta lost the support of the main component of the Democratic Party, the largest member of Italy's coalition government. The National Assembly—known as Direzione Nazionale (DN)—of the Democratic Party approved a document presented by the secretary Matteo Renzi in which expresses their appreciation for the considerable work Letta has done at the head of the government; however, the document also highlighted the urgency to form a new administration. On February 14 of the following year, Letta submitted his irrevocable resignation as head of the Italian government.

66 Xinhua (2014).

67 Andornino (2016).

68 As confirmed in a tweet by the Italian Prime Minister.

Renzi, M. [@matteorenzi] (2014, October 15) Ieri firmati accordi con la Cina per oltre 8 miliardi di €. E c'è ancora tanto spazio per investire in entrambe le direzioni #italiariparte [tweet] transl. Agreements with China were signed yesterday for over € 8 billion. And there is still plenty of room to invest in both directions.

69 Fardella and Prodi (2018).

70 [In chronological order] Enel, Eni, Prysmian, Fca, Telecom Italia, Generali, Mediobanca, Saipem, Terna, Intesa Sanpaolo, Unicredit Banca, Monte dei Paschi Siena.

71 [In chronological order] Shanghai Electric purchased 40 percentage stake of technological company Ansaldo Energia (an Italian power engineering company owned by CDP Equity) for a total of 400 million euros; The Chinese group State Grid Corporation received 35 percent of CDP RETI Spa, an investment vehicle, for a consideration of no less than 2.101 billion euros; China National Chemical Corporation (ChemChina) bought into Pirelli, world's fifth-largest tire maker, in a 7.1 billion euro deal. The acquisition of Pirelli was partly financed by the Chinese Silk Road Fund, a BRI financing vehicle.

72 Andornino (2016).

of 2015, Italian President of the Senate Pietro Grasso made a weeklong visit to the Chinese capital to celebrate the 45th anniversary of diplomatic relations between the two countries. During his visit, Grasso publicly announced for the first time Italy's willingness to join China's Belt and Road Initiative (BRI). The year 2017 was a year of critical juncture for the Sino-Italian bilateral relations. Italian President Sergio Mattarella travelled to Beijing during the fourth edition of the *Italy-China Business Forum*. The forum's main subject matters were Made in China 2025 (MIC 25)—a strategic plan aimed at changing China's perception from a low-end manufacturer to a high-end producer—and the BRI. During a meeting with President Xi Jinping, Italy's Head of State reiterated the country's commitment to strengthen economic collaboration with the Asian partner, placing emphasis on the strategic importance of the Italian port and logistics system for the completion of China's Belt and Road Initiative.[73] Its position at the centre of the Mediterranean makes Italy naturally inclined to engage in trade relationships with countries outside of the EU.[74] Given this 'geopolitical advantage', Italy was the ideal Western terminal of the BRI and, consequently, a natural destination for Chinese investments in infrastructures.[75] In March, Italian Prime Minister Paolo Gentiloni flew to Beijing, accompanied by his wife, to attend the first *Belt and Road Forum for International Cooperation* (BRF). At the opening ceremony, particular attention was paid to the couple whom spent the evening in the company of President Xi Jinping and his spouse. The forum was a remarkable opportunity for Beijing to officially introduce the Belt and Road Initiative to the world, branding the project as truly international. President Xi presented the initiative as a multi-level infrastructure connectivity project, with a strong emphasis on free trade, technological innovation and environmental protection.[76] A vague depiction, which may have contributed to the international scepticism and mistrust that surrounded the initiative.[77] On the other hand, the ambiguity of the project granted Beijing a high level of flexibility and resilience. Differently from other Western countries, Italy did not attempt to decrypt Beijing's rhetoric in search of an underlying meaning. The BRI, often referred to as 'The New Silk Road' by Italian media, had instead an important historical connotation for the Mediterranean peninsula. Originally deeply rooted in Chinese domestic policies, President Xi's ambitious transnational project later assumed significant geopolitical implications that transcended mere infrastructures. The BRI can be defined as a project for the restructuring of supply chains, centred on China and based upon systems of economic, financial and political integration functional to the dilution of American hegemony in the region and the consequent promotion of a new global governance. The desire to expand beyond Western institution concretised with the establishment of the Asian Infrastructure Investment Bank (AIIB). By offering an alternative to the current international economic order, the first Beijing-led Multilateral Development Bank

[73] la Repubblica (2017).

[74] De Maio (2020).

[75] Dossi (2020).

[76] Ibid.

[77] Tiezzi (2017).

(MDB) marked a turning point in the global financial architecture. Italy joined the AIIB with an allocation of 514 million dollars, representing the 2.6 percent of the total capital of the bank. The contribution placed Italy in twelfth place in the list of fifty-seven founding members. While recognising that a unified presence of the EU would have been a preferable outcome, Benedetto Della Vedova—Italy's Undersecretary for Foreign Affairs—described Italy's adhesion to the Chinese MDB as "a wise and farsighted decision".[78] Della Vedova described Asia as a region with tremendous investment potential and a geographical continuity with Europe, able to create new opportunities for the Italian infrastructure sector.[79] Addressing suspicion and opposition by the USA, Della Vedova clarified that greater engagement with China—and the Asian region at large—did not signal a revision of Italy's foreign policy priorities.[80] Despite Beijing's commitment to embrace the role of responsible stakeholder, demonstrating increasing willingness to contribute to international public goods, the Belt and Road Initiative and its potential implications have been subject to ample scrutiny by the European Union. European concerns regarding the BRI arose from a range of issues, namely economic over-dependence, China's growing political influence in the region and Chinese investments in critical infrastructure or high-technology, including related potential security implications, such as data protection and cyber-espionage. Nevertheless, European governments continued to increase economic cooperation with Beijing, aiming to advance their individual interests among vigorous competition.[81] While Europe was juggling sporadic criticism and aspirations for greater cooperation and partnership with China, the USA assumed a tougher approach and a significantly more critical view of Beijing. Washington showed no interest in pursuing a Transatlantic policy vis-à-vis Beijing. President Trump's focus on isolationism and protectionism prompted EU countries to pursue even greater economic engagement with China. On August 2018, the Italian Ministry of Economic Development (MISE), on the initiative of the Vice President of the Council and Minister Di Maio and of the Undersecretary Professor Michele Geraci, set up a *China Task Force* aimed to strengthen relations with Beijing in the fields of trade, finance, investments, cooperation in third countries, as well as research and development.[82] Italy's Minister of Economy Giovanni Tria and Geraci went on separate but synchronous visits to China. Tria, accompanied by a large delegation of Italian entrepreneurs and bankers—including the Vice Director of Banca d'Italia, Fabio Panetta—met with Chinese investors both in Beijing and Shanghai. During his visit, the Minister of Economy held institutional meetings with its Chinese counterpart, Liu Kun, the director of the People's Bank of China, Yi Gang and other representatives of Chinese financial and monetary authorities. Tria's arduous mission aimed to promote Chinese investments in government bonds and private companies in order to guarantee greater diversification and stability of Italy's sources of

[78] AGI (2015).

[79] Ibid.

[80] Ibid.

[81] Gewirtz (2020).

[82] MISE (2018).

financing.[83] Concurrently, Geraci travelled to Chengdu and Shanghai. His objective was to recalibrate the trade imbalance by increasing Italian exports significantly to the Mainland, as well as a share of Chinese direct investments in Italy, especially in infrastructural and industrial assets.[84] The 21st of March 2019, President Xi Jinping began a six days European tour in Italy, marking the first state visit to the country by a Chinese president in ten years. Xi Jinping landed in Rome accompanied by his wife, Peng Liyuan. The day prior to his arrival, the Italian newspaper Corriere della Sera published a signed article by the Chinese President titled "East Meets West, A New Chapter of Sino-Italian Friendship".[85] In the article, recalling the two-thousand years of exchanges forged through the ancient Silk Road, President Xi wished for greater future cooperation between Italy and China under the BRI. During Xi Jinping's state visit, the two countries signed the *Memorandum of Understanding on Cooperation within the Framework of the Silk Road Economic Belt and the 21st Century Maritime Silk Road Initiative.* The document outlines six areas of cooperation, such as policy dialogue, transport, logistics and infrastructure, unimpeded trade and investment, financial cooperation, people-to-people connectivity and green development cooperation. The memorandum is neither legally nor financially binding, and it can instead be described as a 'list of statements of goodwill'.[86] However, given Italy's political significance within the European Union and its G7 status, signing a MoU with China has unavoidably important geostrategic implications that go beyond its European alliances.[87] As one of the most important pillars of US alliance system in Europe and a crucial component of US military presence in the Mediterranean region, Italy's decision to join the BRI raised great concerns in Washington. Italy not only gave a significant boost in legitimacy to the Chinese initiative in the Western hemisphere, but also a gateway into Europe for Chinese political and economic influence and access to key economic sectors. Voices of opposition coming from Brussels expressed concerns regarding the undermining of prospects for a common European stance versus Beijing. The Italian political framework at the time of signing is partly responsible for the alarmist tones surrounding the MoU. By perpetuating, a Euro-sceptic and nationalist rhetoric, as well as a puzzling alliance strategy, the anti-establishment Five Star Movement-League coalition portrayed Italy as an unreliable partner, thus holding back its European projection. The year 2020 marked the 50th anniversary of the beginning of diplomatic relations between Italy and China. That same year, the world was being hit by a global crisis of unprecedented reach and proportion. As an origin-unknown coronavirus was infecting communities and individuals at an alarming rate, governments put in place lockdown measures to counter its spread. The coronavirus pandemic had a devastating economic impact. Italy, one of the European countries hit hardest by the virus, faced its deepest recession since World War II. Beijing promptly responded by providing the Italian government with

[83] MISE (2018).

[84] Fotina (2018).

[85] Xi (2019).

[86] Fardella and Prodi (2019).

[87] Casarini (2019).

huge amount of medical equipment and technical assistance. The great media hype orchestrated by the Chinese media—the MoU signed in 2019 inaugurated a collaboration between some of the most important Italian media outlets with the Chinese government communications—[88] boosted the image of China among Italian public opinion. These set of events consolidated the fears of those, especially in Washington, who saw the rise of Beijing as a direct threat to the global leadership of the USA. The Trump administration responded with a manoeuvre to contain Chinese ambitions in Europe, aimed at strengthening the front of those—among the US allies in the region—that posed potential threats to national security provoked by Chinese technologies and infrastructures before the economic gains that these investments could generate. At the same time, Trump was unilaterally negotiating a trade agreement with Beijing that seemed to favour the USA at the expense of its allies, Europe in the first place, by injecting distrust into the transatlantic relationship and stimulating the Franco-German acceleration on the conclusion of the Comprehensive Agreement of Investment (CAI) just days before Biden took office in the White House. The new Biden administration has recovered the relationship with its European allies by projecting the Chinese threat onto a front that transcends mere national security and points at the constitutive values of Western democracies. The synchronicity of the European and American sanctions against some Communist Party officials in Xinjiang was a clear demonstration of this new front. In February 2021, in the midst of the umpteenth political crisis, Italy's Prime Minister Giuseppe Conte resigned and former European Central Bank President Mario Draghi was sworn in as Italy's new Premier. Draghi began to shift the country's foreign policy priorities towards the EU and Nato, with a strong focus on national security. As Sino-European relations are becoming more hostile, Italy's ability to act as a bridge between the West and Beijing has become increasingly uncertain.

5 Conclusion

The rise of Chinese global ambitions—symbolised by Xi's BRI—and Beijing's ideological profile have recently coupled with Washington's hegemonic backlash to generate fear of a potential emergence of a 'New Cold War'. Unlike what happened during the Cold War, however, the boundaries of this new 'ideological' dispute do not coincide with the spheres of economic interaction. On the contrary, with the start of a new post-pandemic phase, the desperate search for a rapid economic recovery returns to strengthen the interest of many regional actors in a revival of economic relations with Beijing, especially in the wake of the opportunities evoked by the 14th Five-Year Plan recently approved in China.

[88] Recent research carried out by *Formiche* with video material provided by the company *Data Stampa* indicates that Chinese aid received triple the media coverage compared to the USA in *Rai,* one of the biggest broadcasters in Italy.

As Prof Shi Yinhong, a renowned Chinese expert on international relations, recently wrote, in the post-pandemic world the new opposition between superpowers—USA and China—will not translate into a new bipolar dispute as in the past but will instead make the 'intermediate zones', and therefore above all the European continent, increasingly strategic and relevant.[89] In this perspective, the ability of regional actors to independently decline policies capable of synthesising the protection of national security and the promotion of their own economic interests could therefore be decisive not only for the future of the region but also for the balances and outcomes of the new global dispute between Washington and Beijing.

In this framework, and in the light of the historical experience in Sino-Italian relations described in this chapter, it might be helpful to point out three crucial issues that should be addressed throughout the next few years by the Italian government to update its relations with Beijing in sight of these new emerging challenges.

The first issue that should be addressed is how to harmonise economic relations with non-democratic countries while upholding the solidity of democratic systems. Making democratic systems capable of articulating economic relations on the basis of national interests, and therefore preserving their democratic identities, is a challenge which transcends the Sino-Italian relations. Italy must reset economic relations with actors such as China, who are important economic and technological players, as well as destination markets for its exports, by establishing a clear national security framework. Recently, a first step has been taken in this direction. The Italian government is developing an organism that coordinates the intelligence and security of the country, the Intelligence Services Department (DIS). This circuit will establish Italy's cyber-safety perimeter. These efforts must continue with the creation of an impact assessment mechanism which analyses the influence of foreign economic activities and investments on the country's democratic system, in order to create more fluid and positive channels of exchange. Once a national security framework has been established, it will be possible to identify which sectors are to be developed with greater serenity and mutual satisfaction.

Another desirable aim of this mechanism is to encourage Chinese Greenfield Investments in the country which would create new jobs for the Italian people. Italy should also insist on a level playing field, creating a reciprocity system which clarifies to foreign interlocutors the specific delineations between permissible and non-permissible forms of economic engagement. In a first phase, these new dispositions may be perceived as a restriction with respect to the opportunities that the business could otherwise generate—for instance regarding the type of Chinese investment which will be allowed in the country. However, these adjustments taken by the Italian government will provide Chinese companies with clearer guidelines for the establishment of greater economic cooperation in the respect of mutual national security requirements and respective political systems.

[89] 时殷弘 [Shi Yinghong] 美国及其他主要国家对华政策与未来世界格局 [The USA and other major countries" policies towards China and the future world pattern], 2020 年第 6 期《国际安全研究》[International Security Research].

Greater procedural clarity will also bring significant advantages to China's international image. Within Italy's domestic debate, opposers to greater cooperation with Beijing often leverage the Chinese threat to the country's political system, portraying Chinese economic operations in Italy not as an opportunity but as a risk. This anti-Chinese rhetoric, reinforced by foreign China-sceptic commentators, undermines China's international projection. A mechanism which protects Italy's sensitive sectors, and analyses through a screening all economic activities by foreign actors, will significantly contribute to the containment of "Chinese fears" within the country.

The second issue that should be addressed is the lack of cultural, political and linguistic competence on China. At a governmental level, greater expertise on China could be developed through the creation of an inter-ministerial analysis mechanism composed of non-political experts remunerated by the state to provide intelligence. Furthermore, Italian universities could provide training and refresher courses on China to Italian institutional bodies according to governmental and diplomatic needs. At an academic level, universities could equip Italian students with a multidisciplinary expertise on China. University training courses should be supported by, or developed with the partnership of, government institutions, public organisms or companies. At a graduate level, courses on China should be made open to both students and business employees. Simultaneously, Italy should reinforce investments in Chinese universities to promote greater understanding of Italy and its culture. As previously stated by Professor Andornino, in order to develop and improve economic relations with Beijing, political impulse and business engagement solely are inefficient, "much deeper commitment at the people-to-people level needs to be prioritised on both sides".[90]

Last but not least, given Italy's geopolitical role as a 'bridge' between Africa and Europe and its strategic interest in the stability and development of the Mediterranean region, and in sight of Draghi's unprecedented influence in Europe and in transatlantic relations, Italy could present itself as a leader of a new dialogue with China—possibly under the NATO framework—for stability and development in the region. In the last decade in fact, the so-called Arab Spring and the financial crisis that affected the Southern countries of the Eurozone have turned the Mediterranean region into an "arc of tension", with political instability, bursts of extremism and economic dislocation now dominating the regional landscape. These developments pose a direct risk to both Italy (illegal immigration, economic uncertainties and security threats) and China's security and economy (energy supply, spread of Salafism among Chinese Muslim minorities and the development of the BRI). Italy represents an interlocutor of critical importance for China: with its traditional economic and political influence in the region, Italy might well prove a key partner for Beijing and a promoter of a new initiative for stability and progress in the Mediterranean within the EU and, most importantly, NATO. Such an initiative could avoid fuelling the perception that China is set on dividing Europe to capitalise on its weaknesses. It could help convey the image of a world player committed to promoting stability and development in the

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90 Andornino (2012b).

region, and therefore, it could sow some fruitful seeds for a new ‘detente’ between China, the USA and Europe.

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Commercial Relations Between Italy and China from the Past to the Future

Italo Trevisan

Abstract This chapter presents the evolution of the commercial relations between Italy and China in the last hundred years. After presenting some information on the little known interaction before the Second World War and the slow and politically sensitive start of trade relations with the People's Republic of China, it analyses the evolution of bilateral trade and direct investments after 1978, subdivided into three periods characterised by a different economic environment and character in international relations. The consequences of this evolution are seen both on the trend of bilateral trade and on the effect that China's growth had on the competitiveness of Italian companies in the world markets and in their reaction to it. Finally, the immediate impact of Covid-19 is assessed by giving updated information on the trend of bilateral trade in 2020. The growing size and importance of the bilateral trade and particularly of China as source of Italian imports are the most evident aspect that transpires from this analysis. Another important factor that emerges in assessing the evolution of the commercial relations between the two countries is the role that geopolitical forces played and play in shaping it.

Keywords 1978 direct investment plan · Mutual relationship building · Bilateral investment agreements · Commercial relations · COVID-19

1 Commercial Relations in the First Part of Twentieth Century

Commercial relations between China and Italy have a long history, going back to Rome, the ancient Silk Road and the traders from Venice and other medieval trading cities. However, for a long time since then, these relations amounted to almost nothing in all. In the first half of the twentieth century, trade with China was minimal, exports remaining at around 1 million US dollars (current value) for a couple of decades to reach the high point of 11 million US$ in 1928, when they made up 1.4% of total

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Y.-C. Kim (ed.), *China and the Belt and Road Initiative*, Understanding China,
https://doi.org/10.1007/978-3-030-86122-3_12

Table 1 Italian exports to China. Selected years up to middle years of 20th Century. Million US$ (current)

Year	1913	1928	1935	1953	1959
Exports to China	1	11	4	5	36
Total exports	485	766	434	1448	2895
% of Italian exports	0.2	1.4	0.9	0.3	1.2

Source Own elaboration on UNSO, *International Trade Statistics 1900–1960*. MGT(62)12

Italian exports (see Table 1). A warming of the relations after Chiang Kai-shek at the end of 1927 gained control of most of China and Italy's recognition of the government of the Republic of China in Nanjing[1] did not bring the expected increase in bilateral trade. This was due to the Great Depression that caused a sharp contraction in international trade. The exchange between Italy and China was not an exception: by 1935, Italian exports had fallen to 4 million US$, at 0.9% of total export a sharper fall than Italian exports in general. The following years were of turmoil, first with the occupation of large swathes of China by the Japanese which caused an even sharper decline and then with the Second World War that stopped any such trade.[2]

The years after the war saw a slow recovery, to 5 million US$ in 1953 (still an even more negligible 0.3% of the total), rising to a high of 36 million US$ (1.2% of the total) in 1959. Even leaving aside the issue of where exactly those exports went, the incidence of exports to China on Italian exports was still lower than it was in 1928. Moreover, the actual destination of these export is not totally clear.

Italy, after the defeat in the Second World War, had re-established diplomatic relations with China (Corradini 1991) when the Chinese government (by the Kuomintang party led by Chiang Kai-shek) was engaged in a civil war with the Communist party led by Mao Zedong. When in 1949 the Communist forces definitely defeated the Kuomintang and Chiang Kai-shek withdrew on the island of Formosa establishing there the seat of the Republic of China government, Italy, as most Western countries following the lead of the USA, maintained the existing diplomatic ties and recognised the Republic of China government as the legitimate government of China. Therefore, it is quite likely that a part of the exports marked as export to China did not go to mainland China but to the island of Formosa (Taiwan).

2 Trade in the Second Half of Twentieth Century

Indeed, in the years after its establishment, the People's Republic of China adopted a strict autarkic economic policy and the little international trade it was engaged in was towards the Soviet bloc. However, by the end of the 1950s trade with the rest of the world had increased and overtaken the exchanges with the Soviet bloc, which covered about one quarter of the total Chinese international trade (MacDougall 1972). In the period from early 1950s to 1970, the amount of Chinese exports hovered between 1.5

and 2.5 billion US$[3] and imports were roughly equivalent. Italy was not very active in this exchange and its exports, negligible as component of her international trade were as negligible as proportion of Chinese imports. In the 1950s, trade with China was carried out mainly through a few trading companies that coordinated some export-import of the main private and state-owned companies. In the late 1950s, ENI (the Italian state oil company) started direct contacts that brought some fruit in the sale of chemicals and fertilisers. This opened the way to a few other Italian companies such as FIAT, Olivetti, Snia Viscosa,[4] which started exporting to China. In this period, while the Chinese government aimed at framing this budding trade in a commercial agreement, the Italian one, sensitive to the geopolitical implications of such a move, preferred ad hoc operations.

In 1964, following a change of coalition partners in the Italian government which had brought for the first time since 1947 the Socialist Party into government, Italy signed an agreement for the establishment of trade offices in the respective capital cities. The offices opened in February 1965 and the commercial relations between the two countries assumed an official standing, even though the diplomatic dimension was still absent.

The changing geopolitical environment at the end of 1960s created the conditions for the change of Italy's attitude in relation to China. In November 1970, after some long negotiations, Italy and the People's Republic of China established diplomatic relations.

The establishment of diplomatic relations created expectations of a rapid flourishing of commercial exchanges, nurtured, on the Italian side, by the vision of the huge potential of the internal Chinese market. The reality was more modest: for the time being the huge potential of the Chinese market was simply a mirage. In 1970, China was an impoverished country, for twenty years effectively closed to the rest of the world and still in the middle of the Cultural Revolution, one of the recurring disastrous upheavals that characterised Mao Zedong's steering of the country. China's GDP was one fifth of the Italian one and per capita income one-seventieth (Gabusi and Prodi 2020).[5] On the other hand, given the industrial structure of Italy, where SMEs play an extremely important role, not many Italian companies had the capability (or the will) to engage in transactions with a complex reality as the China of the Cultural Revolution. In this period, from the economic point of view, China was an almost completely autarkic country, with minimal exchanges with other countries (in 1971, Chinese exports amounted to 2.78 billion US$ and imports to 2.13 US$; for comparison, Italy's amounted to 19.42 US$ billion and 18.47 US$ billion,[6] respectively). Few Italian products were regularly exported: fertilisers (Montedison), small commercial vehicles (Fiat-Iveco), paints (ENI). The main item among Italian imports was silk. After 1978, China gradually opened to the world, but Italo-Chinese trade, although growing, remained rather limited (see Table 2).

Looking in detail at the evolution of the commercial exchange between the two countries its increase is immediately apparent. After the establishment of diplomatic relations both Italian exports and imports grew at a good pace. By 1979 they had increased six fold and eightfold respectively.

Table 2 Italian trade with China. Selected years Million EUR/Eurolire[a] (current)

Year	1971	1977	1979	1984	1986	1989	1994	1996	1999	2000
Exports to China	19	40	120	408	772	877	1898	2224	1834	2380
1979 = 100	15.8	33.3	100.0	340.0	643.3	730.8	1581.7	1853.3	1528.3	1983.3
Total exports	4835	20,642	30,949	66,637	75,057	99,571	159,092	200,848	221,040	260,413
% of exports	0.39	0.19	0.39	0.61	1.03	0.88	1.19	1.11	0.83	0.91
Imports	21	74	169	395	525	1195	2596	3215	5001	7028
1979 = 100	12.4	43.8	100.0	233.7	310.7	707.1	1536.1	1902.4	2959.2	4158.6
Total imports	5114	21,913	33,362	76,519	76,949	108,410	140,673	165,930	207,015	258,507
% of imports	0.41	0.34	0.51	0.52	0.68	1.10	1.85	1.94	2.42	2.72
Trade balance	−2	−34	−49	+13	+247	−318	−698	−930	−3167	−4648

[a] *Note* Until 1998 all the data of the countries of the Euro area were in the national currency, which is converted in Euros at the transition rate, by the various national statistical services
Source Own elaboration on ISTAT—COEWEB, Archivio storico

The opening of China following the launch of the four modernisations gave additional impulse to this bilateral trade and its growth became even faster. Italian exports to China—19 million EUR (eurolire)[7] in 1971 and 120 million EUR in 1979—grew to 877 million in 1989 and 2380 million in 2000. Whereas imports from China—21 million EUR in 1971 and 169 million EUR in 1979—grew to 1195 million in 1989 and 7028 million in 2000.

Although these figures are affected by the high inflation of the 1970s and 1980s, the 20-fold increase of Italian exports and the more than 40-fold increase of imports from China are still impressive. Moreover, by the middle of the 1980s, the inflation was abating, therefore for more than half the period under analysis, the increase is not fictionalised by the depreciation of the currency. However, there is an additional remark to be made, that puts this impressive development of Italo-Chinese trade in the last twenty years of the twentieth century in a different perspective. Looking at the share of Italian international trade, trade with China in these years was not particularly important nor did it outperform significantly trade in general. Indeed, exports to China remained an insignificant component of Italian export, not reaching the level of 1935 and reaching 1% of the total until 1985. In the following years up to 2000, this proportion oscillated between a low of 0.83% (in 1999) and a high of 1.19% (in 1994). Similarly, imports from China remained a minor component of Italian imports not reaching the threshold of 1% of the total until 1988. In the case of imports, however, afterwards, they kept steadily increasing as a proportion of the total, reaching 2.72% in 2000.

All considered, in the first thirty years after the establishment of diplomatic relations, trade with China grew well. However, after a spurt from an extremely low base in the middle part of the period, exports did not exceed the growth of total Italian exports. On the other hand, imports from China, after a slower start, maintained a constant growing trend so that in the last ten years of this period they grew three and a half times faster than the total imports.

As a consequence of the different growth rates of imports and exports, the trade balance of Italy towards China worsened. Excluding a short period in the mid-1980s, when for four years it was in surplus (reaching 247 Million EUR—19% of the combined trade—in 1986), it was in an almost constantly growing deficit. This rose from the minor amount of 2 Million EUR (but 5% of the combined trade) in 1971 to 318 MEUR (15% of the total exchange) in 1989 and reached 4.6 Billion EUR (49% of the total) in 1999. Despite remaining a minor component of Italian international trade, the exchange with China—in particular, imports from China—had started growing to sizeable dimensions during the last few years of the century. However, as happened for the rest of the world, dimension and nature of trade with China changed momentously at the beginning of the century as a consequence of China's accession to the WTO.

3 Trade in the First Decade of Twenty-First Century: China Becomes a Member of WTO

In the twenty years after its opening up, China had become an important player in world trade and in the world economy (Rumbaugh and Blancher 2004). In the beginning, she was a minnow in international trade and still in 1992 she ranked 16th among exporting countries (Italy ranked sixth). The turn of the century saw the reversal: in 2000 China had reached 7th position, overtaking Italy that was 8th. But the accession of China to the WTO (11th December 2001) was the real turning point. Inevitably, it was a turning point also for Italian economic relations with China. Although, as we have seen, already in the second half of the 1990s bilateral trade flows—and in particular, Italian imports from China—grew significantly, from 2001 they intensify their growth.

Besides the integration of China, international trade, in the first decade of the century, was marked by two other events that can obviously be seen also in the bilateral trade between the two countries. These events were the final integration of the textile and clothing industry in the WTO with the termination on 1st January 2005 of the Agreement on Textiles and Clothing (that provided for the phasing out of the restriction to trade in these industries established by the Multi Fibre Agreement); and the Great Recession, sparked by the banking crisis of 2008 which led to a sharp contraction of trade in 2009. These played on the bilateral Italo-Chinese trade in partially different ways in comparison with their effect on international trade in general.

The trade between Italy and China grew from 9.5 billion US$ in 2001 to 49.5 billion US$ in 2010. In 2001 it was barely higher than in 2000. In this year, Italian exports were 2.9 billion and they grew constantly, to reach 9.4 billion in 2008[8] (see Table 3). The huge contraction of international trade in the year 2009 affected these exports, too, but they rebounded strongly in 2010, reaching the value of 11.3 billion US$, a fourfold (292%) increase in the decade. Imports from China followed the same pattern, at a much higher amount. In 2001 they amounted to less than 6.7 billion US$ (a decrease in comparison with the previous year) but they grew very fast and by 2008 they amounted to 34.6 billion. The sharp fall of 2009 was immediately followed by a sharper increase in 2010, when they reached the value of 38.1 billion US$, amounting to an almost six-fold increase (471%). This brought the trade balance to a huge deficit for Italy (26.7 billion US$).

In this general evolution, it is possible to see how the crucial events affected the general trend to intensified exchange. The accession of China to the WTO caused a first increase, initially stronger for exports, which from 2001 to 2002 grew by 29% against an increase of 16% of the imports. That, however, was the highest rate of increase of Italian exports for the whole decade, while for imports it was the lowest (save the contraction of 2009). The final phasing out of the limitation to imports of textile and clothing products resulted in a noticeable increase of imports from China, particularly of textile and clothing (see Table 4). Indeed, while the increase in total imports from 2004 to 2006 was 53%, the increase in imports of clothing and textile was 65%. The Great Recession had a differentiated effect: imports fell by 22% (slightly less than the total imports that went down by 26%), while exports fell by a barely—in the situation—detectable 2% (as opposed to a fall of 25% of total exports). For Italy, too, the Chinese market was a lonely bright spot in a worldwide disastrous year. Imports, as well as exports, rebounded strongly in the following year, by 42% and 24%, respectively, thus, in 2010, too, the figures for trade with China were much better than those for Italian trade in general, which saw imports increasing by 10% and imports by 17%.

Regardless of the contingent factors characterising the various years, this decade saw the definitive shifting of the balance of trade with China towards much higher imports than exports. Italian trade balance with China has been negative since the mid-1980s, but the size of the deficit swelled from less than 4 billion US$ at the turn of the century to almost 27 billion US$ at the end of the decade. As we shall see later analysing Foreign Direct Investments, part of this imbalance is due to imports of intermediate or finished goods produced by joint ventures set up by Italian firms in China, but this explains only a minor part of the increase of Italian imports.

Looking at the composition of Italo-Chinese trade, it is possible to notice a high degree of continuity. HTS 84 (machinery, mechanical appliances) was the most important item in Italian exports in 2001 (53% of the total) and so it remained for the whole decade (48% of the total in 2010), being the only item summing more than 1 billion US$ in every year (see Table 4). The next two most important items, HTS 85 (electrical machinery) and HTS 41 (leather), too, are the same in 2001 as well as in

Table 3 Italian trade with China. 2001–2010 Million US$ (current)

Year	2001	2002	2004	2006	2008	2009	2010
Exports to China	2901.1	3751.9	5451.0	7070.8	9410.9	9205.9	11,370.0
2003 = 100	67.5	87.3	126.8	164.4	218.9	214.1	264.4
Total exports	244,252.0	254,215.6	353,543.1	417,153.0	541,786.3	406,479.1	446,839.8
% of Italian exports	1.19	1.48	1.54	1.70	1.74	2.26	2.54
% of Chinese imports	1.55	1.46	1.15	1.09	1.06	1.10	1.00
Imports from China	6675.8	7832.9	14,699.2	22,465.4	34,637.3	26,914.4	38,133.1
2003 = 100	61.9	72.6	136.3	208.3	321.1	249.5	353.5
Total Italian imports	236,126.6	246,609.5	355,266.9	442,565.1	560,960.4	414,783.6	486,984.4
% of Italian imports	2.83	3.18	4.14	5.08	6.17	6.49	7.83
% of Chinese exports	1.50	1.48	1.55	1.65	1.89	1.68	1.97
Trade balance	−3774.7	−4081.0	−9248.2	−15,394.6	−25,226.4	−17,708.5	−26,763.1

Source Own elaboration on ITC and WITS-World Bank data

Table 4 Main Italian exports to China by HTS code chapters. Selected years (period 2001–2010) Million US$ (current). Order according to rank 2001

Year	2001	Rank	2006	Rank	2010	Rank	Δ 10/01 (%)
Total Exports to China	2901.1		7070.8		11,370.0		292
84 Machinery, mechanical appliances	1535.1	**1**	3047.3	**1**	5437.5	**1**	254
85 Electrical machinery and parts	349.3	**2**	799.8	**2**	776.6	**2**	122
41 Raw hides and leather	159.1	**3**	316.1	***4***	400.0	**3**	151
71 precious stones, precious metals,	87.9	***4***	163.5	*8*	239.3	**8**	172
51 Wool, yarn and woven fabric	81.8	***5***	127.6	*10*	166.7	11	104
90 Optical, precision, medical, etc.	74.3	***6***	214.8	***6***	340.3	***5***	358
29 Organic chemicals	59.3	*7*	72.9	14	127.9	17	116
39 Plastics and articles thereof	51.4	*8*	208.7	*7*	371.2	***4***	622
73 Articles of iron or steel	47.9	*9*	342.5	**3**	247.2	**7**	416
87 Vehicles other than railway	43.7	*10*	145.6	*9*	320.3	***6***	633
72 Iron and steel	29.7	12	296.7	***5***	187.1	*10*	1458
74 Copper and articles thereof	4.4	35	84.1	13	223.3	*9*	4360

For rank: in **bold** the first three items in each year, in ***bold italics*** the next three, in *italics* the following four (from 7th to 10th)
Source Own elaboration on ITC-Trademap data

2010. Indeed, only two of the ten most important items in 2001 are not among the first ten in 2010 (and one of them, HTS 51—woven fabric, is in 11th place). In this period, two items saw a steady increase in their importance as evidenced by their rise in ranking among exports. HTS 39 (Plastics and articles thereof) moved from the sixth to the fourth position and HTS 87 (vehicles) from the eighth to the sixth. These two were also the ones which had the largest increase in value, both growing more than sevenfold in the ten years (as opposed to a fourfold growth of the total exports).

Two other items among the first ten in 2001 grew more than the exports as a whole; they were HTS 73 (articles of iron or steel) and HTS 90 (optical, precision, medical instruments). The two newcomers in 2010, HTS 74 (copper articles) and HTS 72 (iron and steel) show an even larger increase, albeit from a lower starting point (15-fold the latter, almost fifty times the former, whose exports to China were almost non-existent in 2001).

In comparison with the structure of Italian exports in general, the exports to China present some similarities but also interesting differences.

Of the ten most important items (at HTS 2 level) exported by Italy in 2001, six were among the first ten exported to China. HTS 84 (machinery, mechanical appliances) is the most important of all and this is not surprising. This is by far the most important item in Italian exports in each and every year of the twenty-first century (as well as for a few decades of the 20th) and so it is also among exports to China. The other items present in both are HTS 85 (electrical machinery) that is the third voice in Italian exports and the second among exports to China; HTS 87 (vehicles other than railways) that is the second voice in general and the tenth among exports to China; HTS 39 (plastics and articles thereof), that is fifth and eighth respectively; HTS 73 (articles of iron or steel), eighth and ninth; and HTS 71 (precious or semi-precious stones, precious metals—basically jewellery in the case of Italy) that was tenth in the exports to the world and fourth to China. What was missing among the most important exports to China were some of the most important articles exported by Italy, i.e. furniture (4th among the total Italian exports, 14th among those to China), apparel (6th in the world and 20th in China) and footwear (7th and 27th). On the other hand, leather (HTS 41) and woven fabric (HTS 51), ranking around the twentieth position in total Italian exports, were among the five most important exports to China. In 2001, therefore the structure of Italian exports to China presented some peculiarities when compared to the Italian exports in general. Some of the products for which Italy is renowned and in which she has a larger than average share in world exports—the three Fs: fashion, furniture; food and beverages—did not appear so important in China. This may be explained by the fact that these products are labour intensive and among the first that an industrialising country can produce locally in quantities sufficient to satisfy local demand and start exporting as a low cost competitor to established, higher cost producing countries. Italian products in these industries were aimed at a different, richer, market segment that at the turn of the century was not yet much developed in China.

Also in 2010, there was some difference, with two items among the first ten exported to China (HTS 74—copper and articles thereof; HTS 51—yarn and woven fabric) that were not among the main exports to the world (respectively in 28th and 38th position). It is also possible to notice increased importance of the exports of clothing, now ranking in 12th position.

Italian imports from China, too, show a substantial continuity in their composition. For the whole decade, the two most important imports are: HTS 85 (electrical machinery) and HTS 84 (machinery, mechanical appliances). In 2001 these sectors made up 23% of Italian imports and in 2010 their weight increased to 38.5%.

Moreover, the next four items in order of importance, i.e. HTS 95 (toys, games and sports requisites), HTS 62 (articles of apparel and clothing accessories, not knitted or crocheted), HTS 42 (articles of leather; handbags and similar containers) and HTS 61 (Articles of apparel and clothing accessories, knitted or crocheted), were the same in 2010 as they were in 2001, albeit with some shuffling in rank. (see Table 5). Two only are the new items that enter in the first ten imports in 2010 HTS 92 (furniture) and HTS 72 (iron and steel), both for slightly more than 1 billion US$.

It is possible to notice that some of the most important items are in the same HT chapter as the exports. A partial explanation of this concurrence can be found in the fact that in this decade, besides the growth of trade, Italian investments in China also increased. And in part, these investments occurred in the same sectors where exports were higher.

As can be seen from Table 5, the two most important imports are the same two most important exports (with inverted position): HTS 85 (electrical machinery) and HTS 84 (machinery, mechanical appliances). In 2001 these sectors made up 23% of Italian imports and in 2010 their weight increased to 38.5%. Three other items were among the first ten in both exports and imports. HTS 90 (optical, precision, medical instruments), HTS 39 (Plastics and articles thereof) and HTS 29 (organic chemicals). By the end of the decade, only the former maintained this position, the latter lost importance in the composition of bilateral trade (falling to 17th position among exports and 12th among imports), while HTS 39 lost ground only among imports (from 8 to 14th position) and its place was taken by HTS 72 (iron and steel).

Of the other five imported items that were not also among the first ten exported, four were in the apparel or fashion sector. In order of importance in 2001, they were: HTS 62 (articles of apparel and clothing accessories, not knitted or crocheted), HTS 42 (articles of leather; handbags and similar containers), HTS 61 (Articles of apparel and clothing accessories, knitted or crocheted) and HTS 64 (Footwear). The two items of apparel combined made up 12% of Italian imports from China and the two other (linked to leather products) made up almost 9%. Import of these products increased after the accession of China to the WTO and in particular after the final phasing out of the MFA, but while the value of these imports kept growing (slightly faster than imports in total), their weight on the total imports after a slight increase went back to the starting point. By 2006, imports of apparel were 14% of the total and in 2010 were back at 12%. It should also be noted that part of these imports was the consequence of Outward Processing Trade and outsourcing by Italian manufacturers.

Overall, in this decade the trade between Italy and China grew remarkably. However, the decade saw a huge increase in international trade in general, therefore the relative importance of the two countries in each other's international trade did not increase with the same intensity. In particular, the incidence of exports to China increased quite slowly, from 1.19% of total Italian exports in 2001 to 1.74% in 2008 (only in 2002 it reached the level it had in 1928). Only from 2009, it took a share higher than 2%. More remarkable was the growth in importance of imports from China on total Italian imports. It was 2.83% in 2001 and kept steadily growing,

Table 5 Main Italian imports from China by HTS code chapters. Selected years (period 2001–2010). Million US$ (current)

Year	2001	Rank	2006	Rank	2010	Rank	Δ 10/01 (%)
Total imports from China	6675.8		22,465.4		38,133.1		471
85 Electrical machinery	780.4	**1**	3361.1	**1**	9652.3	**1**	1137
84 Mechanical machinery, appliances	774.7	**2**	2523.0	**2**	5040.2	**2**	551
95 Toys, games and sports requisites;	514.6	**3**	978.1	*7*	1180.9	***6***	129
62 Apparel, not knitted or crocheted	461.8	***4***	1950.3	**3**	2484.6	**3**	438
42 Articles of leather; handbags, etc	385.7	***5***	980.0	***6***	1299.4	***5***	237
61 Apparel, knitted or crocheted	343.4	***6***	1161.9	***5***	2147.8	***4***	525
90 Optical, precision, medical, etc	250.6	*7*	829.7	*8*	997.1	*10*	298
39 Plastics and articles thereof	197.9	*8*	467.4	14	768.7	14	288
64 Footwear, etc	194.5	*9*	820.3	*9*	1085.9	*7*	458
29 Organic chemicals	178.9	*10*	469.2	13	879.0	12	391
94 Furniture; bedding, mattresses,	164.2	12	623.6	11	1058.5	*8*	1458
72 Iron and steel	70.7	22	1613.5	***4***	1046.0	*9*	
73 Articles of iron or steel	151.9	14	710.9	*10*	929.5	11	1493

In **bold** the first three items in each year, in ***bold italics*** the next three, in *italics* the following four (from 7 to 10th).
Source Own elaboration on ITC-Trademap data

reaching 5.08% in 2006 and 7.83% in 2010. For China, the trade with Italy was less significant. Imports from Italy amounted to 1.55% of total Chinese imports in 2001 and decreased to 1.09% in 2006 and to 1.00% in 2010, while exports to Italy, which were 1.5% of the total in 2001 increased to 1.65% in 2006 and 1.97% in 2010.

In conclusion, the full integration of China into the world trade system brought a large increase in the value of bilateral Italo-Chinese trade but, with one important exception, did not significantly change the relative importance of the other country in the general structure of a country's international trade. For China, Italy was the 10th export destination in 2001 and the 10th in 2010; as for imports, Italy was in 15th position as source of imports in 2001 and by 2010 she had fallen to 23rd place. During the first decade of the twenty-first century, therefore, for China, Italy was a middling commercial partner, interesting enough as a market, almost irrelevant as a supplier. For Italy, the situation was different: in 2001, China was in 18th place as export destination; her importance increased only slightly until 2008 (when she was in 14th place) and increased significantly only after the meltdown of international trade in 2009 (11th place) to reach 7th position in 2010. In relation to imports, China was already a relatively important source in 2001, when she was in 9th place. Her importance rapidly increased, reaching 4th position in 2006 and settling in the 3rd place thereafter. For Italy, therefore, the first decade of twenty-first century saw a significant increase in the importance of China as a trading partner, mainly because she became a very important supplier, while she was not an important market until the last year of this period.

Besides the increase in the value of bilateral trade and the advent of China as one of the main suppliers of manufactured goods, the economic growth and integration of China in the global production and trade system had additional effects on Italy's international trade. This was not unique to Italy, because the economic growth of China and its growing integration in the world economy affected all the other countries because already in the first part of the decade China acquired and exploited strong comparative advantages in the labour-intensive industries.[9] This inevitably affected adversely all the other countries, particularly those specialising in productions using low and medium qualified workforce, which lost competitiveness and market share in these industries. However, Chinese integration in the world economy posed a particular threat to Italy because she specialised (and specialises) in sectors with high intensity of unskilled labour such as textiles, clothing, footwear, furniture and non-metallic products. Indeed, in 2001, the comparative advantages of Italy and China in the most important international markets overlapped in many sectors (Amighini and Chiarlone 2005). In unskilled labour-intensive products, China and Italy had an equal specialisation model with few exceptions (toys and plastic articles for China, leather goods for Italy). In human capital-intensive products, specialisation overlapped only for household appliances and in the technology-intensive goods sector, there was no overlap (here Italy had a comparative advantage in non-electrical machinery and China in Information and Communication Technology products). The similarity in specialisation, therefore, was particularly strong in sectors where Italy was the first, or among the first three exporters in the world. A similar specialisation can be a competitive threat, which becomes particularly dangerous if the competitors export the same products to the same markets and if the products are of comparable quality. The factor that can enhance competitiveness in relation to a country with similar specialisation is innovation, employing a superior mix of human capital and technology, often not available to less advanced countries. This allows the making of differentiated goods of higher quality. They can obtain a premium price and this makes them immune to price competition. This helps to understand why Italy has been able to maintain its specialisation in traditional sectors and this was the tool that Italian producers tried to wield again in the face of Chinese competition in the world markets.

However, already towards the end of the century and even more after the accession to WTO, Chinese products improved their quality both because many multinationals moved their production to China, benefiting from low local costs but maintaining high quality levels and because local companies, too, improved the quality of their production through learning by doing and because of technology transfer.[10] As a consequence, if at the beginning of the decade the qualitative superiority of Italian goods was clear, in the following years it was eroded. Chinese competition became more intense in traditional sectors also in the medium product ranges where previously it was absent, putting ever stronger pressure on Italian exports to any market.

The connection between the Chinese expansion and the Italian contraction clearly emerges if we consider the structure by export products. Although in the years straddling the end of the century Italy's share of world exports declined from 4.5 to 3.5%, the biggest difficulty came in most of the sectors of specialisation, which in fact suffered a proportionally greater decrease than the average.

By 2005 the heavy impact of Chinese competition was clearly visible in the market share of Italian products of these sectors in Italy's two main export markets, Germany and France. As can be seen from Table 6, the market share of Italian footwear, apparel and furniture in France and in Germany decreased—in some instances (footwear in Germany) shrank—from 1999 to 2005, while in the same period the market share of Chinese products in the same sectors increased noticeably.

Table 6 Market share of Italy and China in France and Germany. Selected sectors of Italian specialisation

Country	France			Germany		
Year	1999	2002	2005	1999	2002	2005
From Italy						
Total imports	*10.3*	*9.4*	*8.9*	*8.4*	*7.1*	*6.3*
Footwear	25.6	22.1	21.2	26.0	20.4	15.5
Apparel	8.0	7.8	8.6	7.0	6.4	4.7
Furniture	25.3	23.0	20.8	17.8	12.7	10.7
From China						
Total imports	*1.0*	*1.3*	*2.3*	*1.7*	*2.3*	*4.2*
Footwear	5.8	5.3	13.3	6.1	7.6	20.6
Apparel	7.3	9.4	14.5	11.0	12.5	22.5
Furniture	3.0	3.9	7.5	1.6	3.1	7.5

Source Own elaboration on Marvasi (2008) op.cit

Although Italy's market share in the two countries declined about two percentage points in general the fall in these sectors was much steeper, reaching seven or eight percentage points in certain cases. The converse applies to China's exports to France and Germany. Their share on the total imports of the two countries more than doubled (from 1 to 2.3% and from 1.7% to 4.2%). It more than doubled in the mentioned sectors, too, but at a different level (e.g. from 5.8 to 13.3% in footwear to France or from 11 to 22.5% in apparel to Germany). And in some cases, the increase was much stronger (e.g. from 6.1 to 20.6% in footwear to Germany).

The intensity of the competitive pressure of Chinese exports on Italian ones laid on their actual similarity. If the two countries exported different elementary products within the same sector, then in fact there would be no commercial overlap and the competitive pressure would be less. In that period there was a good degree of overlap (Marvasi 2008) and it explains the contrasting trend of the exports of the two countries (exemplified in Table 6 by the French and German markets). Analysing the characteristics of the exports it appears clear that Italy and China were competitors and that the competitive pressure increased over time. This competitive pressure might have led to the crushing of Italian producers in these sectors. Nevertheless, another characteristic of Italian exports in that period was the increase in their prices (as shown by the index of Average Unit Value) that was higher than the world average and that of the main competitors on international markets. This is quite peculiar, considering the international context that was characterised by the advent of China and other low cost countries, with specialisation similar to the Italian one. Direct competition between Italian and Chinese productions in traditional sectors could not have this outcome.

However, if the quality levels of these products were sufficiently different, resulting in differences in prices, competition would likely be less troublesome. When considering the quality of the products in these sectors it appears that qualitative similarity was quite low. Exports from Italy showed a higher and growing level of quality, reducing the level of direct competition with China. Despite, or perhaps because of ever growing Chinese competition, Italian exporters were able to export at ever higher prices. The heavier Chinese competition was faced with increased quality-based differentiation that led to a repositioning of Italian exports on higher quality ranges. This was due in part to actual qualitative improvements made by the exporting firms on the basis of conscious strategy, but also by a sometimes painful exit from low-level production of those firms that most suffered from this competition and were not able to upgrade the quality of their products.

This is well exemplified by the fate of two Italian industrial districts that at the turn of the century were world leaders in their industry: the chair district of Manzano and the tannery district of Valle del Chiampo, both in Triveneto, the north-eastern part of Italy. The Manzano district is one of the 12 districts in Italy specialised in furniture making, it was the fourth in order of turnover and the only one focused almost exclusively on making chairs. In the year 2000, Italian exports of chairs and seats (ATECO CM 31,092), coming in large part from the Manzano area, amounted to 19.4% of world exports. In 2001, Italy had the largest share of exports of seats and chairs (for the slightly wider HTS 9401) at 14.1% and China was fourth at 6.3%.

In those years, China developed a strong furniture making industry, centred in the Dongguan area (in the Guangdong province). By 2010, China's share of world export was 28.8%; Italy was in fifth place with 6.1%. Of the almost 1300 firms operating in the Manzano district, little more than half survived and they kept falling in the following years (Trevisan 2019).

The Valle del Chiampo tannery district is the biggest of the three areas where most of the Italian tannery industry is located. In 2001, Italy was the leading exporter with 16.8% of world exports; China was in sixth place with 3.9% (to which could be added 9.3% from Hong Kong). Chinese exports increased in the following years, doubling in value by 2006 and reaching a 6% share in world exports; Italy's share decreased a little, to 16.7%, still in the first position but if Hong Kong's 11.1% is added, to China's, then it was in second place. The 644 firms in the Valle del Chiampo tannery industry were down to 480. However, by 2019 Italy's share of world exports had risen to 19.5% consolidating her first place as exporter, while China's was down to 3.1% (and Hong Kong's to 4.6%).

The Manzano district was almost wiped out, too many firms remained anchored to making traditional wooden chairs of average quality and were crushed by Chinese producers who could sell the same products at a much lower price. In the Valle del Chiampo, in contrast, most firms managed to improve the high quality of their leather for which they were already famous and to introduce innovative production processes. This allowed them to exploit the shift in consumer demand towards more environmentally friendly products and to repulse the competition from lower cost producers.

4 China as a Giant of International Trade: Italo−Chinese Trade Until the Pandemic

The recovery of international trade, after the slump of 2009, appeared to herald the continuation of the impressive growth recorded in the first decade of the century. Particularly impressive had been the growth of China that became the leading exporter in the world. Italo-Chinese trade, too, appeared to be set for a relaunch and from the Italian side, expectations of renewed growth were bolstered by the good results of the last two years of that period that saw this exchange perform better than any other bilateral trade.

Indeed, the rebound from the 2009 slump in international trade that in 2010 saw an increase of almost 22%, continued in 2011 with another increase of almost 20%. For Italy too, the rebound looked promising, albeit not so strong as that of the world trade in general. After a relatively low 10% rebound in 2010, Italian exports grew more almost 17% in 2011 (see Table 7).

Worldwide recovery of trade did not last long. In 2012 total exports grew by 0.8% and the growth to 2014 added up to 3.6%. The following two years saw a sharp decrease and by 2016 world exports were 15.5% down from 2014, lower than

Table 7 International trade in goods. World and Italian exports 2010–2019. Billion US$ (current)

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
World exports	15,301	18,338	18,496	18,952	19,005	16,556	16,043	17,738	19,468	18,889
Italian exports	448	523	500	510	500	529	457	462	506	547

in 2011 and also lower than in 2008. The next two years saw another rebound of 21%, which led to the highest amount in merchandise trade ever recorded. In 2019, a cooling in international relations resulted in a slowing down of trade (−3%) and the total amount of international exports at 18,889 billion US$ was barely higher (+3%) than in 2011.

Italian exports show a somewhat similar trend, with a continuation of the rebound in 2011 (but without reaching the value of 2008), followed by stasis at a slightly lower (−4%) level and an additional decrease that in 2016 signed the lowest amount of the decade, 12.6% lower than in 2011. For the whole period, Italian exports were lower than in 2008. Only with good growth in the last three years considered (+19.6%), Italian exports had a higher value than in 2008, before the Great Recession.

The general trend of international trade inevitably affected the bilateral trade between Italy and China, which shows a similar trend (see Table 8).

The trade between Italy and China grew from 49.5 billion US$ in 2010 to 55 billion US$ in 2011 but then went down to reach a low of 42.3 billion US$ in 2016 (lower than in 2008), to recover to 52 billion US$ in 2018 and fall back a little to 50 billion US$ in 2019. Although exports and imports followed a comparable path, some important differences can be seen.

Exports after the big increase to 13.8 billion in 2011 (+22.5%), remained at the same level until 2014 (with a meagre increase of 0.5% in the period). They dipped to a low of 11.5 billion in 2015 when they were back at the same level of 2010 and started increasing again from 2016, to reach the highest amount ever of 15.5 billion US$ in 2018 and fall back to 14.5 billion in 2019. In that year the amount of Italian exports was barely 5% higher than in 2011.

Imports from China showed a moderate growth to 41.1 billion US$ (+7.8%) in 2011, started falling in 2012 (−19%) and remained in a generally downward trend (with a temporary upturn in 2014) until 2016 when they reached a low of 30.2 billion (less than in 2008). The following upturn brought the amount to 36.5 billion in 2018, but in 2019 they had decreased a little to 35.5 billion US$. By the end of the decade, then, Italian imports from China were 7% lower than in 2010 and 13.8% lower than the highest amount reached in 2011.

The deep double dip that followed was the consequence, first, of the Great Recession and, then, of the austerity measures introduced in 2011 by the Italian government to avoid being directly involved in the sovereign debt crisis that caused several Eurozone countries (Greece, Portugal, Ireland, Spain and Cyprus) to require severely conditional support from the EU and the IMF. Because of these measures, internal consumption fell significantly and so did imports. This explains the sharp decline

Table 8 Italian trade with China. Selected years (period 2010–2019) Million US$ (current)

Year	2010	2011	2014	2016	2018	2019
Exports to China	11,370.0	13,859.9	13,931.6	12,234.2	15,513.6	14,544.8
2003 = 100	264.4	322.3	324.0	284.5	360.8	338.3
Total exports	446,839.8	523,256.3	529,528.7	461,667.6	549,907.0	532,683.7
% of Italian exports	2.54	2.65	2.63	2.65	2.82	2.73
% of Chinese imports	1.00	1.01	0.98	1.05	0.99	1.03
Imports from China	38,133.1	41,131.3	33,305.1	30,251.4	36,510.9	35,458.0
2003 = 100	353.5	381.3	308.7	280.4	338.5	328.7
Total Italian imports	486,984.4	558,832.0	474,082.6	406,670.7	503,581.1	473,562.3
% of Italian imports	7.83	7.36	7.03	7.44	7.25	7.49
% of Chinese exports	1.97	1.77	1.23	1.26	1.33	1.33
Trade balance	−26,763.1	−27,271.4	−19,373.5	−18,017.2	−20,997.3	−20,913.2

Source Own elaboration on ITC and WITS-World Bank data

of imports from China as well from any other country in the following years, while exports did not start falling until the generalised contraction of international trade in 2015. The recovery after 2016 followed the general trend of recovery in international trade and the slowdown of 2019, too, was in line with the general situation, marked by growing trade tensions between the main trading nations.

The diversity in the pace of evolution of exports and imports led to the checking of the trend to increased deficit in the trade balance with China. After reaching an all-time high of 27.3 billion US$ in 2011, it fell to 20.5 billion in 2012 and, with ups and downs, remained below that amount until 2017, when it reached the lowest level of the decade at 16.9 billion. The following two years of the period saw a larger increase in imports from China than in exports to it, therefore the trade balance worsened again reaching an amount of 20.9 billion, similar to that of 2012.

Table 9 Main Italian exports to China by HTS code chapters. Selected years (period 2011–2019) Million US$ (current)

Year	2011	Rank	2016	Rank	2019	Rank	Δ 19/11 (%)
Total exports to China	13,859.8		12,234.2		14,544.8		4.9
84 Machinery, mechanical appliances	6282.8	**1**	3835.5	**1**	4414.7	**1**	−29.7
85 Electrical machinery and parts	715.5	**2**	554.5	***5***	628.9	***5***	−12.1
87 Vehicles other than railway	528.8	**3**	1108.2	**2**	735.0	**3**	39.2
41 Raw hides and leather	465.7	***4***	293.6	*10*	283.3	12	−39.0
39 Plastics and articles thereof	371.2	***5***	407.1	*8*	556.8	*9*	50.0
90 Optical, cine-photographic, measuring, precision, medical etc.	365.5	***6***	583.7	***4***	618.1	***6***	69.1
74 Copper and articles thereof	357.1	*7*	102.5	17	219.0	16	−38.6
71 precious stones, precious metals	350.4	*8*	18.3	51	35.4	45	−90.0
73 Articles of iron or steel	345.3	*9*	256.1	13	278.6	13	−19.2
30 Pharmaceutical products	250.7	*10*	589.8	**3**	1071.2	**2**	326.7
62 Apparel, not knitted	250.7	11	430.2	***6***	677.5	***4***	170.2
94 Furniture	223.7	12	408.2	*7*	584.5	*7*	161.3
51 Yarn and woven fabric	216.3	13	180.4	16	227.0	15	5.1
42 Articles of leather, handbags, etc.	175.6	16	307.9	*9*	495.5	*8*	182.2
61 Apparel, knitted	115.7	24	187.8	15	366.0	*10*	216.3
64 Footwear	154.8	19	260.9	12	352.4	*11*	127.6

In **bold** the first three items in each year, in ***bold italics*** the next three, in *italics* the following four (from 7 to 10th)
Source Own elaboration on ITC data

In this period, the structure of exports to China partially changed (and became closer to that of the Italian exports in general), with five of the top ten products exported in 2010 being replaced by 2019 (see Table 9).

The most important exported product remained HTS 84 (machinery, mechanical appliances) that in 2011 made up 45.3% of Italian exports to China and despite a decrease in value of almost one third, in 2019 still amounted to 30.3% of the total. HTS 30 (pharmaceutical products) continued substantially to grow in importance and by 2019, with a value of one billion US$ (a growth of 327% in the period), it was the second most important item in the exports to China. HTS 87 (vehicles) kept its 2011 position (third), reaching an amount of 735 million US$ with a 39.2% increase (however, in 2019, exports of this sector were on a downward trend, having spiked in 2017 at 2 billion US$ in 2017). HTS 90 (optical, medical, precision instruments), too, maintained its sixth position, increasing the value by 69% to 618 million. The other two items that remained among the first ten all lost some relative importance. However, while HTS 85 (electrical machinery) saw its sales decrease by 12% to 629 million US$, causing it to fall from second to fifth place, the diminished relative importance of HTS 39 (plastics and articles thereof) from fifth to ninth position was accompanied by a 50% growth in value, to 556 million.

Of the five items that disappeared from the first ten in 2010, HTS 72 (iron and steel) fell out of the list already in 2011 and by 2019 was at 24th place among Italian exports to China. HTS 71 (articles of steel) and HTS 74 (copper articles) fell out in the following years, ending, by 2019, in 13th and 17th place, respectively. A sharper fall is that of HTS 41 (leather), which with 466 million US$ was in fourth position in 2011 and in 2019 was the 16th item among Italian exports with 219 million US$. The worst performance was of HTS 71 (jewellery) whose exports in 2011 reached 239 million US$, placing it in 8th position and in 2019 registered sales of 35 million (a fall of more than 90%). In this case, the precipitous fall of Italian exports to China started in 2014 from 7th position in the previous year to the 45th. The 398 million US$—the highest amount of jewellery exports to China ever—shrank to a negligible 26 million. This catastrophic fall is explained, on the one hand, by a general contraction of imports of jewellery in China but, mostly, by a different approach of Italian exporters that privileged an already widely used alternative channel for selling to China: Hong Kong. Indeed, Italian exports of HTS 71 (jewellery) had always been among the most important item in the exports to Hong Kong.[11] In 2013 the amount exported was 429 million (fifth place and 6.8% of the total). In 2014 it jumped to second place, with 897.5 million equivalent to 12.4% of total exports to Hong Kong. The traumatic loss of 372 million US$ in export to China from one year to the other was more than offset by a growth of 468 million in export to Hong Kong.

The products that during the period entered in the list of the first ten are HTS 30 (pharmaceutical products), a success story of Italian exports worldwide, that from 16th place in 2011 reached the 3rd in 2019, almost trebling the value of sales; HTS 62 (apparel, not knitted), that from 12th position reached the 4th, with an increase of 170% in value; HTS 94 (furniture) and HTS 42 (articles of leather, handbags) that since the middle of the period consolidated their position in 7th and 8th place respectively; HTS 61 (apparel, knitted) was in 10th position in 2019, having just overtaken HTS 64 (footwear) that had reached that position in the previous year.

In this period, the structure of exports to China became closer to that of Italian exports in general. Among the ten most important items exported by Italy in 2019, seven were in the first ten exported to China and their ranking in the two listings became closer.

HTS 84 (machinery, mechanical appliances) remains the most important item in Italian exports both in general and to China. The next two in order of importance HTS 87 (vehicles other than railways) and HTS 30 (pharmaceutical products) are also the next two (with inverted position) in the exports to China. The latter is a success of Italy in this century: she exported an already important 6.3 billion US$ of pharmaceutical products in 2001, equivalent to 2.6% of total exports (9th place); by 2019 exports increased fivefold to 33.6 billion, covering 6.3% of the total. In the Chinese market, the growth was even more marked: in 2001, with a value of 18 million US$ they covered 0.6% of exports to China and were in 18th position and by 2010 they amounted to 141.0 million (1.2% of exports); in 2019 they were the second item in Italian exports to China with 1.07 billion (7.3% of exports), an increase of 660% from 2010. Exports of HTS 87 (vehicles), too, became more important among the exports to China, getting in line with importance they have in total exports. The other two items present in the first ten in both the Chinese market and world exports are HTS 85 (electrical machinery) and HTS 90 (optical, medical, precision instruments), the latter remaining more important in the Chinese market (sixth place) than in general (12th). The significant change in comparison with the first decade of the century is that the products of fashion and furniture that were missing items in

Table 10 Main Italian imports from China by HTS code chapters. Selected years (period 2011–2019). Million US$ (current)

Year	2011	Rank	2016	Rank	2019	Rank	Δ 10/01 (%)
Total imports from China	41,131.3		30,251.4		35,458.0		−13.8
85 Electrical machinery and parts	9941.3	**1**	5590.1	**1**	7485.7	**1**	−24.7
84 Machinery, mechanical appliances	6202.3	**2**	5323.8	**2**	6307.4	**2**	+1.7
62 Articles of apparel not knitted	2629.1	**3**	1637.1	**3**	1581.1	**3**	−39.8
61 Articles of apparel, knitted	2229.8	***4***	1208.5	*9*	1136.7	*9*	−49.0
42 Articles of leather; handbags etc.	1376.0	***5***	1048.5	*10*	1007.9	*10*	−26.7
72 Iron and steel	1334.5	***6***	1359.3	***6***	1142.2	*8*	−14.4
64 Footwear, parts of such articles	1182.8	*7*	945.8	12	978.3	12	−17.3
95 Toys, games, sports requisites	1120.6	*8*	894.3	14	880.4	14	−21.5
90 Optical, precision, medical etc.	1098.7	*9*	1470.4	***5***	1478.4	***4***	+34.6
73 Articles of iron or steel	1082.1	*10*	1038.7	11	1006.1	11	−7.0
29 Organic chemicals	1077.8	11	1609.3	***4***	1430.3	***5***	+32.6
94 Furniture; bedding, mattresses	1064.4	12	1227.7	*7*	1259.6	***6***	+18.3
39 Plastics and articles thereof	950.1	13	1225.7	*8*	1239.2	*7*	+30.4

In **bold** the first three items in each year, in ***bold italics*** the next three, in *italics* the following four (from 7 to 10th)
Source Own elaboration on ITC data

exports to China up to 2010, had increased their importance. Indeed the situation was overturned: apparel (HTS 62), furniture (HTS 94), leather articles (HTS 42), knitted clothing (HTS 61) and footwear (HTS 64) all entered in the first ten (eleven) and all were more important in the Chinese market than in the total Italian exports. The development of the Chinese market may indicate a shift in purchasing habits of the Chinese consumers, undoubtedly connected with the growing wealth of an enlarged middle class that with rising disposable income has moved to a higher segment where the more expensive and fashionable Italian products are positioned.

Italian imports from China show a greater continuity in their composition (see Table 10). Seven of the first ten items in 2010 were still in the first ten in 2019. The continuity in the composition can be even more appreciated considering that twelve of the first thirteen at the beginning of the period were in the first thirteen at the end (the odd one out was HTS 95, toys, which ended the period in 14th position).

For the whole period, the three most important imports are HTS 85 (electrical machinery, one third of which is cellphones), HTS 84 (machinery, mechanical appliances) and HTS 62 (apparel), as they were for most of the previous decade. The first two being still by far the most important component of Italian imports, making up together 39% of the total in 2019, while few of the others reached more than 4% of the total.

Among the items whose importance grew in this period, there are HTS 90 (optical, medical, precision instruments) – which reached fourth position – and the three newcomers in the first ten, organic chemicals (HTS 29), furniture (HTS 94) and plastics and articles thereof (HTS 39) which moved, respectively, from 11th, 12th and 13th position to 5th, 6th and 7th. These four items are the ones that recorded an increase in value in the period, ranging from +18.3% of furniture, HTS 90, to +34.6% of optical and precision instruments, HTS 90; (also electrical machinery, HTS 84, showed an increase in value, but it was only +2%). The value of imports of all the other items considered fell, with the biggest decline hitting apparel, both knitted (HTS 61) and not knitted (HTS 62), reaching −49% and −40% respectively.

In this period, too, it is possible to notice that in many cases, the sectors of greatest importance among the exports were the same that were most important among the imports. Indeed, in 2019 eight sectors that were among the first ten exports, were also among the first ten imports. However, an important difference is given by vehicles (HTS 87) and pharmaceuticals (HTS 30) that made up 12.4% of the value of exports and ranked respectively second and third among exports, while ranking 13th and 25th among imports, making up 3.4% of their value. The other difference is organic chemicals (HTS 29) and iron and steel (HTS 72) made up 7.2% of the value of imports and ranked respectively fifth and eighth among imports and 14th and 24th among exports, making up 2.3% of their value.

In this decade Italo-Chinese trade has not held up to the tantalising promise shown in the last years of the previous one and up to 2011. By 2019 the interchange between the two countries was little more than 1% higher than in 2011. From the Italian point of view, the increase of less than 5% in the exports, fell quite short of the expectation risen at the beginning of the period. The fall in the value of imports (−13.8%), albeit helping to lower the large deficit in the trade balance, was a disappointing sign for the development of trade relations. Considering the general trend of international trade in this period, the performance of this bilateral trade was not abnormal. Nevertheless, what happened during and immediately after the Great Recession raised expectations that trade with China could become an engine for Italian recovery and open new and wider perspectives to the bilateral trade, but the reality of the 2010s was that bilateral trade stabilised at the level reached at the beginning, with a slight downward trend. This downward trend is clearly present in Chinese exports to Italy while Italian exports show a slightly better trend. As we have seen, the amount of the latter was higher in 2019 than in 2011, albeit lower than in the previous two years. As a proportion of Italian exports, exports to China were 2.65% in 2011 and 2.73% in 2019 (having reached a high of 3% in 2017). However, as a proportion of Chinese imports they fared less well: from 1.01% of the total in 2011, they reached 1.03% in 2019, after touching a high of 1.11% in 2017. Imports from China, on the other hand, in 2019 had a value 13.8% lower than in 2011 but still made up 7.49% of Italian exports in that year in comparison with 2.36 at the beginning of the period. However, Italy lost importance as a market for Chinese exports: in 2019 it was the destination of 1.33% of total Chinese exports, down from an already minor 1.77% in 2011.

This scarce relevance of Italian trade for China is well expressed when looking in which position is Italy as a supplier and as a market. In 2011 she ranked 23rd among the suppliers but she sunk to 27th already in the following year and, after a seesawing recovery, ended in 26th place in 2019. Losing Italian trade would appear trifling when seen from Beijing.

On the other hand, trade with China is more important for Italy, mostly because China is one of the most important suppliers. Indeed, for the whole period, China was consistently the third most important supplier. She is less prominent as a market, but certainly not inconsequential. The 2.73% of the total exports that had China as destination in 2019, placed her at ninth place as a market for Italian goods, slightly down from seventh place in 2011.

On the face of it, then, China is a very important trading partner for Italy, stably so in terms of supply, possibly of growing importance as a market.

Of course, the incidence averaged on the total exports hides the different incidence on specific items. When looking at how important the thirteen top sectors of Italian export to China are for China, some important differences appear (see Table 11). The most important export sector, HTS 84 (machinery) covered 30.35% of Italian exports but this represented only 2.69% of the Chinese imports of machinery. This

Table 11 Incidence of the main exports to China on total Italian exports and Chinese imports, 2019 MUS$

	2019	% of exports to China[a]	Rank in exports	% of total Chinese imports of item[a]	Rank as supplier
Total exports to China	14,544.8	100.00	n.a	1.03	26
84 Machinery, mechanical appliances	4414.7	30.35	**1**	2.69	**8**
30 Pharmaceutical products	1071.2	7.37	**2**	5.98	**5**
87 Vehicles other than railway	735.0	5.05	**3**	1.25	11
62 Apparel, not knitted	677.5	4.66	**4**	19.40	**1**
85 Electrical machinery and parts	628.9	4.32	**5**	0.24	20
90 Optical, precision, medical, etc.	618.1	4.25	**6**	0.92	18
94 Furniture	584.5	4.02	**7**	17.46	**1**
42 Articles of leather, handbags, etc.	556.8	3.83	**8**	39.13	**1**
39 Plastics and articles thereof	495.5	3.41	**9**	0.88	19
61 Apparel, knitted	366.0	2.52	**10**	13.62	**2**
64 Footwear, parts of such articles	352.4	2.42	**11**	15.22	**2**
38 Miscellaneous chemicals	283.2	1.95	**12**	2.39	**10**
73 Articles of iron or steel	278.6	1.92	**13**	4.05	**7**

N.B.: [a]Italian exports at FOB, Chinese imports CIF
Source Own elaboration on ITC data (https://www.trademap.org)

was, however more than double the incidence of the total Italian exports and this made Italy the eight suppliers of machinery to China. Looking in this way, in some of the main export sectors Italy has an important share of the Chinese import market and in a few instances, is the market leader. This is the case of HTS 42 (leather articles, 39% of Chinese imports), HTS 62 (apparel not knitted) and HTS 94 (furniture). In addition, HTS 64 (footwear) and HTS 61 (apparel, knitted) Italy is the second supplier (in both cases after Vietnam) .

Among these sectors, Italy ranks in a good position as supplier of China also in HTS 30 (pharmaceutical products, 5th position) and HTS 73 (articles of iron and steel, 7th position). From these data, too, the peculiarity of the Italian economy shows clearly. Italy is strong in the Chinese market (as in the rest of the world) mainly in the traditional sectors with a relatively high intensity of unskilled labour. As we have seen earlier, this caused some difficulties because of the competitive pressure of manufacturers from emerging countries and in particular, China. It was also said that, during the first decade of the century, Italian producers tried to face this increasingly heavier competition by innovating and differentiating in order to reposition their products on higher quality ranges. Considering the increased importance of these sectors among Italian exports to China and the weight they have in Chinese imports of these products, it appears that repositioning of Italian producers on premium price segments has been successful enough.

The other side of the coin is that in sectors with a higher technological content Italy struggles to emerge in the Chinese market, with the risk of being relegated to sectors where the threat of domestic producers and producers from other emerging economies will keep growing.

China is in third position as a supplier of Italian imports, but her importance is emphasised when looking at her rank as a supplier for the items that are among the most important Italian imports (see Table 12). Out of the twelve most valuable import sectors, China is in first position in five of them (electrical machinery, apparel knitted and not knitted, furniture and footwear) and in second in the other three (mechanical machinery, articles of leather, articles of iron or steel).

The incidence of imports from China in these sectors is consistently higher than on total Italian exports (exceptions are plastics, HTS 39 and iron and steel, HTS 72). In some cases, it is particularly higher. This is the case of the traditional sectors with a relatively high intensity of unskilled labour, where it ranges from almost 32% of total Italian imports of furniture (HTS 94) to almost 14% for knitted apparel (HTS 61). It is also the case of electrical machinery (HTS 85) and machinery and mechanical appliances (HTS 84). This points to the consolidation of a process whereby imports from China acquire a dominant position also in technology-intensive goods.

This increased importance of technology-intensive goods in the imports from China can be better appreciated if the analysis moves to a finer level of detail. Looking at which are the most important imported products at the level of HTS headings (4 digits), this appears clearly (see Table 13). Out of the first twelve types of product, three only belong to traditional sectors: suitcases (4202), wheeled toys (9503) and lamps and lighting fittings (9405). The two most important types are cellular phones

Table 12 Incidence of the main imports from China on Italian imports, 2019 MUS$

	2019	% of imports from China[a]	Rank in imports	% of total imports of item[a]	Rank as supplier
Total imports from China	35,458.0	100.00	n.a	7.49	**3**
85 Electrical machinery	7485.7	21.11	**1**	20.61	**1**
84 Machinery, mechanical appliances	6307.4	17.79	**2**	13.60	**2**
62 Articles of apparel not knitted	1581.1	4.46	**3**	18.76	**1**
90 Optical, precision, medical, etc.	1478.4	4.17	**4**	11.01	**3**
29 Organic chemicals	1430.3	4.03	**5**	8.87	**4**
94 Furniture; bedding, mattresses	1259.6	3.55	**6**	31.74	**1**
39 Plastics and articles thereof	1239.2	3.49	**7**	6.08	**5**
72 Iron and steel	1142.2	3.22	**8**	5.87	**5**
61 Articles of apparel, knitted	1136.7	3.21	**9**	13.86	**1**
42 Articles of leather; handbags, etc.	1007.9	2.84	**10**	24.51	**2**
73 Articles of iron or steel	1006.1	2.84	**11**	15.01	**2**
64 Footwear, parts of such articles	978.3	2.76	**12**	13.89	**1**

N.B.: [a]Italian exports at FOB, Italian imports CIF
Source Own elaboration on ITC data (https://www.trademap.org)

(8517) and data processing machines (8471) that, alone, take up more than 11% of all Italian imports.

Other three types belong to HTS 84 and 85, mechanical and electrical machinery and two to the steel industry. In all these types of products (excluding 8708, parts for heavy vehicles) the share of China in Italian imports is much higher than her share in the total imports of Italy, ranging between one quarter and one third of the total. The share of toys and lamps is higher and reaches almost half of the total imports, but is less potentially sensitive than the 30% share in data processing machines. The type

Table 13 Incidence of main imports from China at HTS heading level on total Italian imports. 2019 MUS$

	2019	% of imports from China	Rank in imports	% of total Italian imports of item
Total imports from China	35,458.0	100.00	n.a	7.49
85*17* Telephone sets (incl. cellular)	2642.1	7.45	**1**	29.85
84*71* Data processing machines	1423.3	4.01	**2**	27.47
42*02* Trunks, suitcases	958.7	2.70	**3**	27.26
85*16* Electric heathers	538.1	1.52	**4**	31.11
95*03* Tricycles, scooters, wheeled toys	536.2	1.51	**5**	45.03
84*15* Air conditioning machines	514.9	1.45	**6**	32.32
94*05* Lamps and lighting fittings	514.0	1.45	**7**	49.61
90*03* Frames and mountings for spectacles	497.8	1.40	**8**	77.28
85*01* Electric motors	465.8	1.31	**9**	25.95
72*10* Flat-rolled iron and non-alloy steel	462.1	1.30	**10**	26.74
87*08* Parts, accessories for heavy vehicles	461.4	1.30	**11**	5.65
72*19* Flat-rolled stainless steel	450.4	1.27	**12**	16.18

Source Own elaboration on ITC data (https://www.trademap.org)

of product—among the twelve most important ones—where China's share of Italian imports is extremely high (77%) is 9003 frames and mountings for spectacles.

This almost monopolistic position in supplying them is explained by the presence in Italy of some of the most important companies in the eyewear industry, such as Luxottica and Safilo that are the world market leaders, plus a few others that are not very far from them.[12] These companies have invested in plants in China and a sizeable proportion of the imports from China are made up of delocalised or outsourced intermediate or final production for these companies. Additionally, the eyewear industry in Italy has seen a good influx of investments by Chinese companies, acquiring smaller firms, particularly in the Cadore eyewear industrial district (North of Venice, where both Luxottica and Safilo are located). Those firms, too, imported from China components or finished frames for further finishing of the eyeglasses in Italy.

A similar analysis of Italian exports to China presents a somewhat similar situation, in the sense that here, too, when looking at what are the most important types of products at the HTS four digits level, the products of traditional sectors have a smaller place.

Actually, also among the 12 most important exports at this level of detail, only three—suitcases (4202), furniture (9403) and footwear (6403)—belong to these sectors. To them, marble and monumental stones (2515) can be added, which with 219 million US$ is at ninth position among Italian exports to China, comprising just more than half of Chinese imports these products and does not belong to the technology-intensive sectors. The other eight types do belong to technology-intensive industries. Five of them are part of HTS 84, mechanical machinery, ranging from dishwashing machines (8422) to turbojets and turbo-propellers (8411) and two belong to HTS 87 vehicles, cars (8703) and components for heavy vehicles (8708), the latter in large part due to supplies to the joint ventures of Iveco in Nanjing and other Chinese cities. The single most important export, however, belongs to the pharmaceutical industry and specifically, medicaments for therapeutic or prophylactic use (3004) that with 860 million US$ makes up almost 6% of the total exports (Table 14).

Diversely than in the case of imports from China, however, these Italian exports do not make up a sizeable part of Chinese imports of the same item. Only in four cases, mechanical appliances not elsewhere specified (8479), taps and valves (8481), pumps (8413) and dishwashers (8422) Italian products amount to more than 5% of Chinese imports. This again emphasises the imbalance in trade between the two countries, whereby to a prominent presence of Chinese products among the imports in important sectors there is the counterpoint of a marginal presence of Italian products among Chinese imports.

5 Italian Foreign Direct Investments (FDIs) in China

The limited trade interactions with China in the first half of the twentieth century reflected also a dearth of investments. Indeed, excluding what little had been set up in the concession of Tianjin,[13] no significant investment was made by Italian companies in China. Only around the mid-1930s, in the period of warmer relations between Italy and the Republic of China government, a bigger investment happened with the establishment of the SINAW (Sino-Italian National Aircraft Works) and the construction of a factory in Nanchang for the production of military aircraft. This big investment was short-lived,[14] and not followed by any other due to the worsening of the relations with the Chinese government (Garello 1993). After the Second World

Table 14 Incidence of main exports to China at HTS heading level on total Italian exports. 2019 MUS$

	2019	% of exports to China	Rank in exports	% of total Italian exports of item
Total exports to China	14,544.8	100.00	n.a	2.73
3004 Medicaments	859.3	5.91	**1**	3.56
8703 Vehicles for transport of persons	501.2	3.45	**2**	3.39
4202 Trunks, suitcases	479.4	3.30	**3**	4.65
8481 Taps, cocks, valves	439.6	3.02	**4**	5.44
9403 Furniture	366.3	2.52	**5**	4.97
8479 Machines, mechanical appliances	356.4	2.45	**6**	6.22
8422 Dishwashing machines	340.4	2.34	**7**	5.09
6403 Footwear	248.3	1.71	**8**	3.11
2515 Marble, monumental stone	219.0	1.51	**9**	51.58
8413 Pumps	218.6	1.50	**10**	5.16
8411 Turbojets, turbo-propellers	198.1	1.36	**11**	4.39
8708 Parts, accessories for heavy vehicles	175.0	1.20	**12**	1.21

Source Own elaboration on ITC data (https://www.trademap.org)

War (and the restitution of the Tianjin concession to China in force of the peace treaty signed by Italy in 1947), there was not much time to restart economic ties with the Republic of China, embroiled in the civil war that ended with the creation of the People's Republic of China.

For thirty years after its establishment, the People's Republic of China was totally closed to investments by foreign entities. After the adoption of the *Open Door Policy* in 1978, legislation was enacted (in 1979), which encouraged and regulated incoming FDIs. These investments were initially localised in the four expressly established Special Economic Zones (SEZ)[15] and were necessarily minority (max 49%) equity Joint Ventures (Yeung et al. 2009). The Joint Ventures established in the SEZ were meant to produce mostly for export and initiate the acquisition of new technology by the Chinese partner companies (at the time all State-Owned Enterprises, SOE). Initially, incoming FDIs were exploratory but with the years, they increased in value and scope. The SEZ were successful and this induced the Chinese government to open more areas of the country to FDIs. In particular, in addition to the port cities and coastal areas where FDIs were allowed in the course of years, from 1992 also inland cities were opened. These investments contributed significantly to the first stages of Chinese economic development and a large part of the spectacular growth of Chinese exports in the last part of the twentieth century can be attributed to foreign-invested enterprises. Moreover, as until 1992, almost all FDIs were in the form of Joint Ventures, the more or less willing transfer of technology that they procured was extremely important to bring Chinese manufacturing to a competitive level (Graham and Wada 2001).

In this situation, Italian firms were slow to move. Only some large companies had the resources and the capability to navigate the complex environment of investments in China. Therefore, most of the SMEs engaged in international trade preferred to wait and see before risking to set up a Joint Venture. In the 1980s and early 1990s some Joint Ventures were established, mainly in the automotive, chemical and mechanical engineering industries.

This was a typical situation of Italian FDIs not only in China but in the whole world. Most of these were made by a few large companies, state owned or private. In a large proportion of cases, the internationalisation of productive processes of Italian SMEs was pulled by the processes of international expansion of those large and medium-large companies that attracted their SMEs suppliers to co-localise. The limited pool of companies ready to invest in foreign countries is well clarified by looking at the number of Italian companies actually doing so. In the year 1986, a total of 263 companies had participations abroad in 671 firms. By 1990, they had barely grown to 309 with participation in 1033 firms. The situation started to change in the early-1990s when an increasing number of SMEs started to invest abroad. By 1996, the number of companies investing abroad had more than doubled to 622 and the firms that were participated had grown to 1842 (Mariotti and Mutinelli 1998). It is in this period that a growing number of Italian companies starts considering the Western Pacific and China in particular – as an interesting destination for the delocalisation of part of their productive processes. Among the earlier ones were the SMEs in the fashion industry (from textile to leather, from apparel to shoes) and in the mechanical machinery industry. In both cases, the main reason was to take advantage of lower costs and relocate part of the production in China to supply finished products for commercialisation worldwide and quite often semi-finished products as partially processed products to be finished in Italy. Indeed, as in most other developing countries, in China too, Italian firms and in particular SMEs, often adopted alternative ways to FDIs, such as outsourcing agreements often accompanied by outward processing traffic. Therefore the integration of production between the two countries was more intense than it appears from the figures on FDIs. These, however, increased during the 1990s, becoming more consistent after the beginning of the new century and multiplying in the second part of that decade.

Until the end of the century, Italian FDIs in China were extremely limited, seldom going above twenty to thirty million Euro; their weight on total Italian FDIs was worse than negligible, usually being below 0.1%. This was also a consequence of the mode of investment, mostly the opening of a Representative Office or – when production facilities were involved – acquiring generally a minority stake in a Joint Venture, where a large component of the Italian investment was not financial but in kind, the transfer of whole production lines, decommissioned in Italy (being substituted by new ones) and reassembled in China.

With the turn of the century, the amounts increased, as did their weight on the total (see Table 15). However, still, they were negligible, reaching at most 73 million Euro (0.24% of the total) in 2000. The year 2004 marked also for FDIs the start of a noticeable growing trend that brought the total gross flows to more than 400 million Euro and the incidence of the investments in China on the total to 0.6%. As it clearly appears, however significant the single investment might have been for the firm making it, on the whole China was rather irrelevant as a destination of Italian investments.

Looking at the net flow of Italian FDIs to China, the situation is obviously similar, with a degree of swinging due to the differences in yearly disinvestments, which were particularly high in 2002, when the net flow amounted to little more than one quarter of the gross flow. Excluding this year, in the whole period up to 2008, the disinvestments from China were limited and the proportion of net to gross flows was most of the time above 85%–90%. This is quite different from the situation of the Chinese investments in Italy, where this proportion never reached 50% and sometimes important disinvestments caused net outflows. Although attracting limited investments, covering a paltry proportion of the total outgoing flow, China was seen as a place for careful action but long-term commitment.

The financial crisis of 2009 caused a sharp contraction of FDIs everywhere (−33% at global level), but Italian FDIs were practically frozen (−71%), so it is not surprising that Italian FDIs in China almost disappeared: net flows were down −86% to 36 million Euro, the lowest since 1999. The share of China did not go down to the same levels only because of the general collapse in outflows (see Table 16).[16]

In the following year, there was a surge of investments to China due to the much better performance of Chinese economy during the crisis and its aftermath. Although Italian FDIs had grown significantly that year (+61% at global level), the increase in net flows to China was staggering and caused China's share to grow from 0.24% to 4.42%. 2011 saw a further increase in the net flows to China, albeit with lesser intensity than in general. Therefore, although they reached 1.14 billion Euro, the maximum ever till that moment, China's share of Italian FDIs decreased to 3%. The following two years saw a significant fall in net flow to China that by 2013 were down two thirds from 2011. This fall can be ascribed to the precarious conditions of the Italian economy because of the sovereign debt crisis in the Euro area that affected the capacity and willingness of Italian firms to invest. Flows to China fell only a few percentage points more than outward flows in general. This decrease, then, was not focused particularly on China, which saw its share decrease little more than half a point to 2.35% of the total.

In more recent years, the trend of Italian FDIs in China has been varied, with some years seeing large disinvestments (in 2014 the net flow was negative and in 2019 it was very close to it). These disinvestments fluctuate from year to year and have various explanations. In particular, from 2012 the economic crisis due to the

Table 15 Flows of Italian direct investments to China. 1998–2008. Million Euro

Year	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Gross Italian FDIs in China	24.9	13.1	73.7	55.0	49.4	58.9	114.5	251.1	220.8	432.5	317.3
Total gross outflows	29,826	26,665	31,216	47,142	36,909	38,375	36,826	51,404	76,521	104,327	52,760
China/tot Italy %	0.08	0.05	0.24	0.12	0.13	0.15	0.31	0.49	0.29	0.41	0.60
Net Italian FDIs	17.98	9.69	70.0	46.4	13.9	42.8	103.5	229.8	203.9	387.5	253.1
Total net outflows	14,444	6361	31,216	47,142	36,909	38,375	36,826	51,404	76,521	104,327	52,760
China/tot Italy %	0.12	0.15	0.22	0.10	0.04	0.11	0.28	0.45	0.27	0.37	0.48

Source ICE-ISAT, *Commercio estero e attività internazionali delle imprese*. Annuario 2007 and Annuario 2008

Table 16 Net flow of Italian direct investments to China. 2007–2013. Million Euro

Year	2007	2008	2009	2010	2011	2012	2013
Net Italian FDIs in China	387.5	253.1	36	1089	1144	584	359
Total Net outflows	104,327	52,760	15,317	24,652	38,576	23,156	15,288
China/tot Italy %	0.37	0.48	0.24	4.42	2.97	2.52	2.35

Note The source used, ICE-ISTAT, does not give data on gross investments for the last years of the period considered
Source ICE-ISTAT, Commercio estero e attività internazionali delle imprese. Annuario, various years

sovereign debt problems in the Euro area caused serious difficulties to many Italian firms, among them some of those that invested in China. These had to disinvest to face a dangerous liquidity crunch. Moreover, in these years a number of large-ish Italian firms that had invested in many countries, including China, were acquired by foreign companies (some of them Chinese) and as a consequence, their foreign investments were excluded from the amount of Italian FDIs.

Nevertheless, the net flows of investments in China, in general, remained around 2.5% of the total Italian FDIs and their yearly amount fluctuated in tune with the general trend (see Table 17).[17] Important exception to this trend is the year 2018 when Italian FDIs in the world increased by 28% and those in China more than doubled (+159%). In that year Italian FDIs reached the highest value since 2011 and those to China by far the highest value ever. The contraction of net FDIs to China in the following year (−98%) was more precipitous than that of total FDIs (−37%). The developments of these last few years were strongly influenced by the evolution of the international trade environment and by the interaction of trade and political tensions that caused an acceleration of a trend that was already gaining speed, i.e. the shift of cost-saving investments from China, that was becoming ever more expensive, towards other Far-Eastern countries, from apparel companies moving to Cambodia to mechanical machinery ones moving to Vietnam.

Despite some ups and downs in the flow of FDIs, the stock of Italian direct investments in China kept growing, reaching 10.38 billion Euro in 2019. As a proportion of the total stock of Italian FDIs they remained a little higher than 2% (see Table 18). The presence of Italian-invested companies tends to concentrate in a few areas

Table 17 Net flow of Italian direct investments to China. 2013–2019. Million Euro

Year	2013[a]	2013	2014	2015	2016	2017	2018	2019
Net Italian FDIs in China	359	403	−207	485	323	609	1582	22.5
Total Net Italian FDIs	15,288	18,930	19,843	19,508	14,618	21,715	27,789	17,496
China/tot Italy %	2.35	2.13	−1.04	2.49	2.21	2.80	5.69	0.13

Source Banca d'Italia, https://www.bancaditalia.it/statistiche/tematiche/rapporti-estero/investimenti-diretti/index.html
[a] ICE-ISTAT, *Commercio estero e attività internazionali delle imprese* Annuario, 2014

Table 18 Stock of Italian direct investments in China. 2012–2019. Million Euro

Year	2013	2014	2015	2016	2017	2018	2019
Italian FDIs in China	8792	7064	7892	8046	9054	10,236	10,382
Total Net Italian FDIs	387,135	393,281	419,405	432,968	456,570	484,629	494,008
China/tot Italy	2.27	1.80	1.88	1.86	1.98	2.11	2.10

Source Banca d'Italia https://www.bancaditalia.it/statistiche/tematiche/rapporti-estero/investimenti-diretti/index.html

(which after all are the same where most foreign-invested companies tend to be). About one third is located in the Pearl River delta, another third in the Eastern China area (Shanghai, Jiangsu, Zhejiang), some more in Beijing and the remaining scattered in coastal provinces such as Fujian and in some cities in the interior such as Wuhan, Chongqing and Chengdu.

The areas of activity where Italian investments are concentrated has changed. In the first period, they were mostly in the automotive industry, mechanical machinery and in the low-tech production for two of the Three Fs industries that are emblematic of the *made in Italy* (Fashion and Furniture, in this case). From the burst of investments after China's accession to the WTO and in the more recent years, investments focused also on other industries, such as food processing, electronic and electric products, products in plastics, medical instruments. Later, also thanks to interaction with Chinese companies investing in Italy, investments were made in energy and construction industries. The increase in the number of companies investing in China as well as in exports, attracted investments by service companies, in fields from insurance, to consultancy, to legal services.

These investments have resulted in a good number of Chinese companies participated by Italian ones or under their control. Initially, most participations were in the form of Joint Ventures; their number kept growing but soon they were outnumbered by activities under control of the Italian investor. By 2009, more than three quarters of the Chinese firms with Italian investors were under their control (see Table 19). In the period 2009–2015 (unfortunately these data are available only for that period) the number of Chinese firms participated by Italian ones grew from 1393 to 1698, a growth of 21.8%. This was a higher growth than the growth of companies participated by Italian ones in the world, which grew by 12.6%. Consequently, the proportion of Chinese companies on the total marginally increased to 4.76%. The number of firms under the control of Italian investors also grew, from 1096 to 1379, at 25.8% higher growth than that of invested firms as a whole. Therefore, the proportion of the former on the total increased to 81.2%.

It seems worth noticing that in 2015 more than four-fifths of Chinese firms with Italian participation were under the control of the Italian investor. Apparently, the Joint Venture where the Chinese partner has a majority stake as a means to be present in the Chinese market has fallen out of favour for Italian investors (as for almost everybody). Indeed, the evolution of Italian FDIs in China has not been only quantitative

Table 19 Chinese firms with participation or under control of Italian investors[a]. 2009–2015

Year		2009	2010	2011	2012	2013	2014	2015
Participation	In China	1.393	1.453	1.530	1.586	1.633	1.676	1.698
	Total	31.672	32.600	33.589	34.139	34.847	35.499	35.684
	CHN/WRD	4.40	4.46	4.56	4.65	4.69	4.72	4.76
Control	In China	1.096	1.139	1.209	1.259	1.309	1.347	1.379
	Total	24.722	25.439	26.256	26.716	27.382	27.917	28.106
	CHN/WRD	4.43	4.48	4.60	4.71	4.78	4.83	4.91
Control as %	Of participation	78.68	78.39	79.02	79.38	80.16	80.37	81.21

[a] *Note* The data refer to FDIs, i.e. involving some degree of investor participation in the management of the business. Portfolio investments, made by entities not interested in the management of the company, are excluded
Source Own elaboration on Banca dati REPRINT, ICE—Politecnico di Milano

but also qualitative. At the beginning of the century, two thirds of the Italian companies present in China were present only with Representative Offices and most of the others were Joint Ventures with Chinese majority stake (CeSIF 2019). By 2010, only 31% had simply a Representative Office and only 14% were Joint Ventures, while almost half (47%) had established a fully controlled subsidiary, the so-called WFOE, Wholly Foreign Owned Enterprise (ICE Shanghai 2010). By 2015, the WFOE has become the preferred form of presence for most of the Italian companies with direct investments in China. This evolution went hand in hand with the change of perspective of Italian investments in China. Italian investors moved from being in China in order to cut their production costs for products to be sold in the world markets to 'being in China for China', to tap the growing internal market that increasingly requires higher quality goods.

6 Chinese Foreign Direct Investments in Italy

For a long time after her opening up to foreign investments, China was not an active actor in the FDI field. It took twenty years from the opening to incoming FDIs before the Chinese government launched the *Go Global Strategy*, with the aim of promoting investments abroad. Before that, throughout the 1980s, a few SOE made only sporadic and small-sized investments. These were mainly in the transport sector or for commercial units and were mostly located in developed countries with particular concentrations in North America. In the 1990s number and size of investments increased but it was only with the *Go Global Strategy* that they took off. The Chinese government selected a group of SOEs and supported their internationalisation with financial support (and greater managerial autonomy than the average SOE). The aims were, on the one hand, to restructure and strengthen these SOEs, which would be the ‘country champions’ and, on the other hand, to start affirming the strength and power of the Chinese economy, by increasing the presence of Chinese firms abroad and especially in developing countries (Buckley et al. 2007). In the following years and particularly after China’s accession to WTO, Chinese FDI expanded in every corner of the world and private Chinese companies, both large and SMEs, became important actors in this process. Subsequently, from 2007, a new and important subject appeared among Chinese investors, the sovereign wealth fund China Investment Corporation (CIC). While China continued to be a large recipient of FDIs (usually the second after the USA), it soon became one of the main sources of them, too. This outward drive was bolstered by the renewed interest of the Chinese government in exploiting the growing strength of the Chinese economy (which had weathered the Great Recession much better than any other in the world). In 2013, in order to promote economic development and inter-regional connectivity, it launched the *One Belt, One Road* (*OBOR*) initiative, later renamed *Belt and Road Initiative* (*BRI*). As is well known, this initiative aims at opening infrastructural corridors on land and on sea between China and Europe (with branches reaching all the places in between). It constitutes the main economic rationale for a huge programme of Chinese investments in all the countries that are involved in the initiative. According to OECD (2018), Chinese investments in the construction (infrastructure) sector in the countries that by 2017 had joined the initiative (BRI-participating countries) amounted to 480.3 billion US$, equivalent to about 59% of total Chinese investments. These figures include all investments since 2005; therefore, they cannot be all attributed to the BRI, however, they have increased significantly since 2013 and the proportion of this type of investment going to BRI-participating countries is even higher in these last few years.

Another change in Chinese outward FDIs that occurred in the first decade of the twenty-first century concerned their nature. Up to the middle of that decade, the prevailing modes were greenfield investments (particularly in the commercial area) and joint ventures. From then onwards, mergers and acquisitions (M&A), became ever more important. In particular, a preferred mode was acquisitions, initially of foreign partners with whom earlier joint ventures had been established (Spigarelli 2008).

This flow of Chinese outward investments initially did not much affect European countries (still in 2006 only 3% of Chinese FDIs went to Europe) and among these countries, Italy was not the main recipient. Even after the inception of the Go Global Strategy, for a certain time, Chinese investments in Italy were sporadic and rather insignificant. Before 2000, similarly to other European countries, the few Chinese investments were made ‘to show the flag’ or for some very specific operations. Among the earlier ones, after the opening of commercial offices of Air China in 1986, there was in the same year the opening of a representative office of the Nanjing Automotive Corporation in Turin to make easier relations with Iveco (that had previously formed the Naveco joint venture with NAC).

Most Chinese FDIs up to 1999 were of a commercial nature. The only production investment was by Baosteel that, in the 1980s, bought the plants of the Napoli-Bagnoli steelworks and then proceeded to dissect them piece by piece, reassembling them and putting the plant back into operation near Shanghai (Amighini et al. 2009). In the first part of the 2000s, Chinese investments slowly increased in number and in value and changed in nature. They ceased to be confined to the aim of strengthening commercial relations and broadened their goals, tackling more strategic ones such as accessing new markets and acquiring technical and marketing know-how. As shown in Table 20, while the very few investments in the fourteen years to 1999 were almost exclusively of a commercial nature, in the following years the proportion of investments in the production and R&D areas increased remarkably so that by 2007 they accounted for almost half of the total.

The value of Chinese investments in Italy was quite low until the first years of twenty-first century (just a little more than 'showing the flag') and although they increased up to fourfold in the following years, they remained quite paltry for the rest of the decade (see Table 21).

Indeed, the gross inflows from China remained below 10 million Euro up to 2002 and never reached the amount of 60 million. Although Italy has never been among the

Table 20 Number of Chinese direct investments to Italy, by activity. 1986–2007

Year	1986–1999	2000–2004	2005	2006	2007	Total[a]
Commercial services	8	6	5	1	3	23
Production	1	7	2	1	3	14
Headquarters	–	2	–	–	1	3
R&D	–	1	1	3	–	5
TOTAL	9	16	8	5	7	45

Note[a] There are eight additional investments in the commercial area whose date is not available
Source Amighini et al. (2009), L'avanzata degli IDE cinesi in Italia, in ICE-ISTAT, Commercio estero e attività internazionali delle imprese, Annuario 2007, Roma 2008

Table 21 Flows of Chinese direct investments to Italy. 1998–2008. Million Euro

Year	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Gross Chinese FDIs in Italy	4.1	5.9	7.4	6.2	8.2	12.3	11.8	27.5	58.1	35.9	50.7
Total gross inflows	14,280	19,188	42,374	43,912	44,602	64,923	111,239	139,177	179,579	211,463	123,263
China/World	0.03	0.03	0.02	0.01	0.02	0.02	0.01	0.02	0.03	0.02	0.04
Net Chinese FDIs in Italy	1.95	0.55	1.46	1.70	0.49	5.06	−3.34	8.02	1.54	−9.9	6.3
Total net inflows	3862	6557	14,529	16,633	15,482	14,549	13,553	16,059	30,215	28,510	11,627
China/World	0.05	0.01	0.01	0.01	0.00	0.03	−0.02	0.05	0.01	−0.03	0.05

Source ICE-ISTAT, *Commercio estero e attività internazionali delle imprese*. Annuario 2007 and Annuario 2008

Table 22 Net flow of Chinese direct investments to Italy. 2007–2012. Million Euro

Year	2007	2008	2009	2010	2011	2012
Net Chinese FDIs	−9.9	6.3	181	−20	142	53
Total net inflows	28,510	11,627	14,451	6931	24,691	12,468
China/World	−0.03	0.05	1.25	−0.29	0.58	0.43

Note The source used, ICE-ISTAT, does not give data on gross investments for the last years of the period considered
Source ICE-ISTAT, Commercio estero e attività internazionali delle imprese. Annuario, various years

greatest recipients of FDIs, the Chinese ones in this period amounted, at most, to an insignificant 0.04% of the total. Looking at the net flows, the point remains the same. Apart from the annual oscillations of investments and disinvestments that in some years caused a net negative flow, the value of Chinese investments was insignificant if compared to the total net inflows.

The situation briefly changed at the time of the Great Recession. The financial crisis curbed the flow of investments the world over, but China weathered the crisis much better than any other country and her investors became more active also in Italy. In 2009, when international trade fell by 25% and FDIs by 33%, net inflow of FDIs into Italy went against the trend and increased by 24%; the Chinese ones multiplied by a factor of 24 (see Table 22). This was still a minimal part of the net inflows of investments, but at 1.25% of the total, they were at least becoming visible.

In 2010, the flow of investments in Italy was much weaker and in large part offset by disinvestments (the net inflows were lower than in every year since the beginning of the century). Chinese investments followed this pattern, too and the net inflow was slightly negative.

The following two years saw a decline in the already limited weight of Chinese investments, although not to the lows of the first part of the century. Basically, up to 2012, Italy was a marginal destination for Chinese FDIs, never reaching more than 0.15% of the total outflows from China; and China was marginal among investors in Italy. Italy was not particularly attractive for investments and the relative increase in the incidence of Chinese FDIs after 2009 is mainly due to a general increase in Chinese investments into Europe, which also included Italy.

The situation appeared to change from 2013 when Chinese investments increased suddenly and spiked at a net flow of more than 3 billion Euro (making up more than a fifth of total net investments). The net investments fell in the following year,[18] although 2014 is often called the 'golden year' of Chinese investments in Italy (Rosenthal and Spigarelli 2015). Indeed, according to the China Global Investment Tracker (CGIT), in this year there was a number of operations involving Chinese investments of 100 million US$ or more. Two of them involved the acquisition of a large minority stake in firms in the power generation and in the energy infrastructures industries (Shanghai Electric acquiring 40% of Ansaldo Energia for 560 million US$ and State Grid (specifically STEL) acquiring 35% of CDP Reti for 2.76 billion US$). These alone bring the value of Chinese FDIs in 2014 to 3.3 billion US$. Even larger in that year were the portfolio investments by the Chinese sovereign wealth fund (SAFE), which amounted to more than 4.5 billion US$ for acquisition of 2% stakes in some of the bluest chips in Italy (Eni, Enel, Telecom Italia, Fiat, Generali, Mediobanca, Saipem, Prysmian). In both cases, the investment concerned the biggest companies in Italy and among the biggest in the world in their fields. Moreover, the industries where these companies operate—automotive, telecom, energy, infrastructures, banks and insurance—are of strategic importance (and it might not be a case that, in China, foreign investors for a long time and in some instances still now, were not allowed in or had very restricted access to those industries).

The following year saw one of the biggest ever Chinese investments in Europe, 7.86 billion US$ to acquire Pirelli, one of the biggest tyre makers in Europe and in the world. 2015 was the year that set the record for Chinese investments in Italy, which in the following years decreased noticeably, although remaining much higher than in the period up to 2013 (save the previous record year 2010).

After the spike in the middle years of the decade, when they made up more than one third of the total inflow, Chinese investments in Italy remained a minor component of both the total Chinese investments abroad and the total inflow of foreign investments in Italy. This, however, does not mean that Chinese investments are irrelevant. In general, they are well aimed at important companies in strategic industries and bring needed financial resources to these companies. Some Chinese investments were quite sizeable and attracted attention. Table 23 gives the number and value of investments of more than 100 million US$ since 2010. Those that can be characterised as FDIs (more than 10% of the equity) are 16 in total and no more than two or three every year. Even less are the big portfolio investments, practically concentrated in 2014 and 2015. The total amount of 26.5 billion US$ is not indifferent, even if it does not place China among the biggest investors in Italy.

However, big investments are not the whole story. Very important in terms of Chinese presence in Italy and in terms of acquisition of technical and marketing

Table 23 Main (>100 MUS$) Chinese investments in Italy. 2010–2018. Million US$

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
Number of FDIs	1	–	2	1	2	3	3	2	2	16
Value FDIs	1170	–	700	1300	3320	8340	1710	890	910	17,370
Number of portfolio investments	1	1	–	–	7	3	–	–	1	13
Value portfolio	970	130	–	–	4540	2240	–	–	1250	9130
Total number	2	1	2	1	9	6	3	2	3	29
Total value	2140	130	700	1300	7860	10,580	1710	890	2160	26,500

Source The China Global Investment Tracker

Table 24 Italian firms with participation or under control of Chinese investors[a]. 2009–2015

Year		2009	2010	2011	2012	2013	2014	2015
Participation	Chinese	106	156	205	239	247	269	304
	Total	11,430	11,895	12,227	12,372	12,430	12,646	12,768
	CHN/WRD	0.93	1.31	1.68	1.93	1.99	2.13	2.38
Control	Chinese	92	139	187	221	224	243	275
	Total	10,407	10,855	11,170	11,321	11,386	11,609	11,751
	CHN/WRD	0.88	1.28	1.67	1.95	1.97	2.09	2.34

[a] *Note* The data refer to FDIs, i.e. involving some degree of investor participation in the management of the business. Portfolio investments, made by entities not interested in the management of the company, are excluded

Source own elaboration on Banca dati REPRINT, ICE—Politecnico di Milano

know-how by Chinese firms have been the investments in the small and medium sized enterprises (SMEs), the mainstay of the Italian industrial structure and competitiveness in world markets. Looking at the number of Italian firms that have participation, or are under control of Chinese investors (see Table 24) it is possible to notice the sharp increase in the number of firms involved (as well as the small, albeit growing, proportion of the total number of firms that are under control or are participated by foreign entities).

Unfortunately, these data are available only up to 2015, this does not allow to have a fully updated picture of the situation. Considering the general slowdown of FDIs in the last few years, however, it is possible to say that this picture fairly reflects the present state. As already remarked, Chinese FDIs are a minor component of incoming FDIs in Italy and were more so in the first decade of the twenty-first century. This is shown by the number of Chinese participated and controlled companies and their proportion out of the total: in 2009 there were 106 Chinese participated companies of which 92 were under full control and they were less than 1% of the total. The next two years saw a good increase and by the end of 2011 the companies participated or controlled by Chinese investors had doubled in number. By 2015, the numbers had again increased, so both participated and controlled companies amounted to three times the figure of 2009. Their proportion on the total had increased, too, to something more than 2.3%. Despite more than doubling in six years, this was still a very small proportion for a country that by that time was one of the most active investors on the world stage.

These numbers show that the headline grabbing big deals conceal a much more intense activity aimed at smaller companies. Indeed, the average size of the participated companies in 2009 was 29 employees and that of the controlled ones 27 employees. Even if commercial offices contribute to lower the average, this shows that the preferred target of Chinese acquisitions was SMEs (usually very strong in their niche). This remains true even after 2015 when some of the biggest of those ‘headline grabbing’ deals had taken place. In that year, the average size of the participated companies was 56 employees and of the controlled ones 43 employees.

Another important element to notice is the clear preference of Chinese investors to acquire full control or at least a controlling stake in the companies they invested in. In 2009, out of 106 companies where they invested, Chinese investors had control of 92 (87%); by 2015 this proportion had grown to 90%.

Summing up, it is possible to say that Chinese FDIs are a minor but growing component of foreign investments in Italy and they are mostly focused on some strategic industries, such as telecoms, infrastructure and energy and in some niche industrial sectors where Italian SMEs have a significant world market share. The motivation for these investments has been and still is the acquisition of technologies that helped the Chinese firms to modernise and advance in the value chain, as well as the acquisition of market know-how in specific niches. In the last decade, in particular in the years after the financial crisis, which had been quite critical for Italy, Chinese companies, as well as those of other countries that managed to avoid the double strike that hit Italy, seized the opportunity to enter in cash-strapped companies exploiting a precious opportunity for the acquisition of know-how, technology and market savvy that have been useful for their shifting to a more advanced position in the value chain (Paladini 2013). The push to Chinese activity abroad given by the *Belt and Road Initiative* and the careful but positive attitude of the Italian government towards it led to expectations that 2019 and 2020 would see another spurt of Chinese investments in Italy.

7 The Covid Pandemic and Its Immediate Consequences

After a decade of fluctuating performance and reaching the highest value ever in 2018, international trade again slowed down in 2019. The global macroeconomic context displayed growing tensions of a political and economic nature that led to a tightening of measures (tariff and non-tariff) among the major world economies. The ensuing threats of retaliation and consequent difficult trade negotiations caused increased global economic uncertainty. This had negative repercussions on business confidence and investment decisions, affecting the world economy in general and international trade in particular. The process of globalisation, already not very brisk in this decade, slowed down again (−3% in the value of exported goods). In this setting, Italian exports kept a positive trend, mostly thanks to the demand from non-EU markets even if the exports to China kept, instead, the slightly negative trend (in Euro) of the previous year.

At global level, the expectations at the beginning of 2020 were of a consolidation of the economic cycle during the year and, at the least, a stabilisation of international trade.

For Italy, too, the first two months of 2020 were positive; exports grew by 4.7% in comparison with the same two months of the previous year, despite the fact that February trade was already affected by the slowdown in flows with China.

Then things changed. By March, the world was in the grip of the pandemic; its impact and contagion containment measures led to a Great Lockdown, which is in a fluctuating way still going on in most parts of world (excluding China) one year later. By the end of the first quarter, international trade recorded a fall (−6%) over the same period of the same year. Economic growth and world trade took a dive in the second quarter. International trade plunged in the second quarter (−21%, according to UNCTAD) and despite an unexpectedly strong recovery afterwards (+11.6% in the third quarter over the second) ended up with a decline of 8% for the year.[19] Although the recovery in the second half of the year was largely driven by China, the disruption of the global supply chains caused by the widespread blockade of production activities in the first half of the year is set to persist for some time. This is causing a review of the structure of these supply chains and most likely their partial restructuring that may affect the volume and the direction of trade flows.

Italy, too, felt the brunt of the Covid pandemic; indeed, she is one of the worst affected countries, counting at mid-March 2021 more than three million officially recorded cases (7th in the world) and more than 100,000 related casualties (6th in the world). This, of course, had a markedly negative effect on her economy and her international trade. The decrease in merchandise trade (−11.2%) was sharper than the world average (however, since this is skewed by the performance of China and some other East Asia countries, the figure for Italy is not much different than the one for the other industrial countries). Exports decreased less than imports (−9.7% versus 12.8%) and as a result, the Italian trade balance for 2020 recorded the best result ever, at 63.6 billion Euro.

Table 25 shows the trend of Italian trade for the year 2020.

This is negative both for exports and imports already in the first quarter, because after the good results of January and February (exports grew 3.6% in the two months), in March it was already heavily affected by the pandemic (exports −14.8%, imports—18.8%). The second quarter was disastrous, particularly April (exports −43%, imports −35%) and May (−30% and −38%, respectively). The rebound in the following months merely allowing the reduction of the fall in relation to the previous year (with the last two months of the year offering a glimmer of hope, in particular December, when exports were 3.3% higher than in 2019).

In this dismal scenery, trade with China is like an (attenuated) ray of sun. Indeed, exports declined, but at −0.63% in comparison to 2019, they can be considered substantially stable. The more so when considering that in the previous two years, characterised by overall growth of Italian exports, exports to China fell by a larger

Table 25 Italian trade in 2020. By quarter. Million Euro (current)

	I Quarter	II Quarter	III Quarter	IV Quarter	2020
Total exports	112,719	88,660	110,027	122,144	433,550
Growth yoy (%)	−3.0	−28.5	−4.9	−1.8	−9.7
Total imports	100,508	77,929	90,561	100,975	369,972
Growth yoy (%)	−6.4	−28.7	−11.1	−4.5	−12.8

Source ISTAT—https://www.istat.it/it/archivio/253636

Table 26 Italian trade with China. 2018–2020. Million Euro (current)

Year	2018	2019	2020
Exports to China	13,127	12,968	12,887
Growth rate year on year	−2.68	−1.20	−0.63
Total exports	465,325	480,352	433,550
% of Italian exports	2.82	2.73	2.97
Imports from China	30,889	31,663	32,144
Growth rate year on year	8.53	2.50	1.52
Total imports	426,046	424,236	369,972
% of Italian imports	7.25	7.49	8,68
Trade balance with China	−17,762	−18,695	−19,257
Trade balance with World	39,280	56,116	63,577

Source ISTAT—https://www.istat.it/it/archivio/253636. N.B.: the figures for the years 2018–2019 in this table are different from the ones given in Table 8 because they are given in Euro and not in US$. Exchange rate fluctuations explain why in certain cases the year on year growth rate differs and sometimes has a different sign

amount. Consequently, the incidence of China on Italian exports increased, to reach the maximum it had attained in 2017 (see Table 26). This notwithstanding, China remains the ninth market for Italian exports (albeit only a hundred of million Euro short of Poland in eighth position).

Imports from China fared even better, as their value increased. Although the increase was not large (1.5%), in a situation where imports from all the other countries fell, it was enough to increase the share of China in Italian imports to almost 8.7% and bring China to second position among the suppliers of Italy.

Table 27 shows how imports and exports fared during 2020. Exports to China fell sharply in the first quarter and even more sharply in the second one. This fall was already intense in January (−12%) and became steeper in February (−22%) when China was in full lockdown and Italy was still thinking that it was a Chinese sickness that would remain in China, as had happened with SARS. The worse came in April when China was slowly relaxing but Italy was totally locked down (−34%) and in May (−25%). From July exports to China started being higher than in 2019 and for the

Table 27 Italian trade with China in 2020. By quarter. Million Euro

	I Quarter	II Quarter	III Quarter	IV Quarter	2020
Total exports	2539	2742	3431	4176	12,887
Growth yoy	−15.9%	−20.7%	+16.9%	+17.4%	−0.63%
Total imports	7451	8414	8476	7804	32,144
Growth yoy	−6.0%	+9.3%	−1.4%	+4.8%	1.52%

Source ISTAT—https://www.istat.it/it/archivio/253636 whole of the second semester, they remained higher, with exceptional performance in September (+33%) and November (+35%), helping to bring the exports for the whole year practically at the same level of 2019 and making China a bright spot in Italian trade in 2020.

Imports from China decreased in the first semester, as Covid spread in China and the Chinese government imposed draconian measures to control it. The full effect of these measures was felt on imports only in March (−27%) as still the goods imported in February had moved out of China before their implementation. The second quarter imports from China ended up being higher than in the same period of 2019 thanks to the very strong growth of June (+24%). They were then subdued (with a fall in September and in October), until a renewed spurt of growth in the last two months of the year that allowed the total for 2020 to show a small increase on the previous year.

Looking more in detail at the composition of Italian exports in 2020 and how it varied in relation to 2019 (Table 28), it is possible to see which sectors[20] have been affected by the pandemic and which instead have increased their exports. As we know, the main export sector is, by far, machinery and mechanical appliances; its exports decreased a little, but its weight on the exports to China barely moved (from 29.8 to 29.4% in 2020). Out of the ten most important sectors, seven recorded a fall, but excluding furniture and textiles (the latter heavily hit), all kept the losses at or below −5%, which in the circumstances of the pandemic is not too bad, particularly when considering the forecasts in April–May. Some sectors were in countertrend: chemical products increased by more than a fifth, to become the second most important export to China. Electrical machinery and measuring and testing instruments, too, recorded good increases. Other sectors, not among the first ten exporters, recorded good increases, among them products of rubber and plastics (+12.6%) and especially products of metallurgy that more than doubled the value of exports from 238 to 492 million Euro.

Table 28 Main Italian exports to China 2019 and 2020. By ATECO sector. Million Euro (current). Order according to rank 2019

	2019	2020	Var %
CK28—Machinery, mechanical appliances n.e.s	3865.0	3794.4	−1.8
CF21—Pharmaceutical products	1077.2	1040.4	−3.4
CB14—Apparel (incl. in leather and fur)	1028.2	1007.2	−2.0
CE20—Chemical products	933.1	1143.1	22.5
CB15—Articles of leather	931.0	894.3	−3.9
CL29—Vehicles	641.1	609.3	−5.0
CM31—Furniture	482.8	435.9	−9.7
CI26—Computers, optical, measuring, medical instruments	460.9	483.7	5.0
CJ27—Electrical machinery and equipment	432.9	466.2	7.7
CB13—Textile products	425.3	326.8	−23.2
Total	12,969.3	12,887.5	0.6

Table 29 Main Italian imports from China 2019 and 2020. By ATECO sector. Million Euro (current). Order according to rank 2019

	2019	2020	Var %
CI26—Computers, optical, measuring, medical instruments	5603.3	5543.2	−1.1
CK28—Machinery, mechanical appliances n.e.s	3768.3	3738.3	−0.8
CJ27—Electrical machinery and equipment	3646.4	3537.1	−3.0
CB14—Apparel (incl. in leather and fur)	2531.3	2396.1	−5.3
CM32—Products of other manufacturing industries	2286.8	1930.4	−15.6
CE20—Chemical products	1794.1	1874.7	4.5
CB13—Textile products	1769.5	4031.0	127.8
CB15—Articles of leather (excl. apparel)	1762.5	1329.5	−24.6
CH25—Metal products (excl. machinery)	1624.1	1424.8	−12.3
CH24—Products of metallurgy	1553.8	1060.0	−31.8
Total	31,662.6	32,144.4	1.5

Looking in the same way at the imports from China a different picture appears. Despite the fact that globally their value increased by almost 500 million Euro (+1.5%), only two of the most important exporting sectors in 2019 recorded growth (see Table 29). Particularly remarkable is the growth of textiles, whose imports increased by 500 million, to make this the second most valuable import. Of the other imports, among the few that recorded an increase in value was pharmaceutical products (+19%).

In this troubled year, China was the only country that increased exports to Italy and in doing so raised her already great importance among the latter's suppliers. Combined with the fact that it was one of the very few countries to which Italian exports, in practical terms, did not decrease, this makes China an extremely important trade partner for Italy, a partner whose importance might well increase, even more, making possible some interesting developments in the wider arena of international relations.

The developments that can be expected in commercial relations can be based on the intensifying links between companies of the two countries in terms both of trade and investments. What can be considered as a tendential growth of exports from Italy to China (that the 'Covid year' barely dented) appears to be set to continue: nothing striking but steadily progressing. It can be expected that this moderate progress would not change the weight of the Chinese market in the total of Italian exports to a great extent. This is because for most Italian firms the 'Chinese mirage' most likely will remain just that. To transform it into reality requires the ability and the resources to plough the Chinese market and sow it carefully, finally to reap the fruits of such an effort. Italian firms, most of a middling size, might have the ability but probably lack the resources to do so. Therefore, it is difficult to foresee a much higher rate of growth of these exports. Imports from China are already a sizeable proportion of total Italian imports and might increase further, although this may depend on the speed of a shift of outsourcing suppliers (that the 'Covid year' has slowed down). An important component of bilateral trade might come from closer links between firms that have invested in the other country. Supply chains have developed as a consequence of these investments that involve movement of components in both directions. Finally, another source of intensified trade can be the growing number of Italian companies owned by Chinese nationals temporarily living or definitively settled in Italy.

Such an intensification could, however, be countered by some processes that have become more significant in the last few years. Some of these processes are grounded in business dynamics and others are of a geopolitical nature.

Business dynamics that can affect this evolution are both internal and external. The lure of a growing Chinese market is strong and the Italian companies that have financial and managerial resources to plough in that country are intensifying their efforts to gain a long-term position there. This means establishing subsidiaries that may (and, with the growth of the size of the accessible Chinese market, increasingly will) become a sort of second head. They might become Italo-Chinese companies for which integration in the Chinese market becomes the most important strategic evolution. This, however, would mean that the provision of the Chinese market would increasingly come from their factories in China. This might lead to greater exports only if crucial components would still be manufactured in Italy. Similarly, the increasing investments of Chinese companies in Italy might lead to an increase in trade in both directions. Up to now, an important reason for Chinese FDIs was the acquisition of Italian firms possessing specific know-how; a bidirectional flow could happen whereby basic components are imported from China and finished products are exported there or, more likely, crucial components are supplied from Italian plants to the Chinese plants.

Here an external factor that can have significant consequences is the *Made in China 2025* strategic plan, launched in 2015. This programme aims to make China more focused on the development of the internal market and, more importantly, technologically self-reliant and globally competitive in those industries that are considered crucial for the further development of the country. Some of these sectors such as advanced mechanical and electrical machinery are crucial Italian exports. Therefore the *Made in China 2025* programme is bound to have a stronger impact on bilateral trade than any other Chinese initiative because it presents a double challenge to Italian firms. The objective of increasing the local content of technological production in many sectors is pursued by subsidising the Chinese companies that are involved in the effort, by promoting technological transfer (sometimes, as in the past, obligatory condition for doing business in China), by giving favourable conditions to companies that decide to set up in China production facilities for advanced goods. The double challenge for Italian firms is, on the one hand, to remain competitive in the Chinese market, which shall become ever more difficult, unless they establish a strong presence in the country, as mentioned above. On the other hand, the increased efficiency of the Chinese firms nurtured by the *Made in China 2025* programme will make them increasingly competitive in international markets. This would present again to the Italian firms the same problem they had twenty years ago, when Chinese competition ate market share in international markets from Italian producers in traditional sectors, wiping out many of them.

Additional internal business dynamics that can affect the bilateral trade are related to the restructuring of the supply chains of the Italian companies. The shift from China-based internal or outsourced supply of components had already started some years ago. Two reasons were at the root of this shift. The first was connected to the ever-shorter life cycle for consumer goods—particularly in the apparel sector—that required faster response from producers called to introduce new lines in rapid sequence. Time to market from production in China was too long: regardless of the increased efficiency of the Chinese plants, the transit time on the shipping lanes was too long for the fast turn of consumers' fashion. This led to a process of relocation of part of the production from the Far East to countries closer to the main markets, but still with low labour costs (albeit not as low as initially in China), such as Turkey or Tunisia. The second reason was that the low costs of producing in China were becoming less so at an increasing pace. By the mid-2010s, China had already lost the labour cost advantage that was its main attraction for the first thirty years after her opening to the world. As is shown in Table 30, the average hourly wage in China in 2016 was already 30% higher than in Mexico and double that in Vietnam. It is true that there are huge disparities in wages in China where the hourly wage in Shanghai can be three times that in a city in the interior, but disparities are present also in the other countries, albeit perhaps not so great. In any case, in the following four years, the average wage in China increased by 30% against an increase of 26–27% in the other two countries, increasing the gap and making China less attractive for companies that want to delocalise their production for cost-saving reasons.

This has caused the relocation of labour-intensive activities from China to Vietnam and other countries. Italian companies, too, had in part followed this line of action. Basically, most production that is carried out to supply low cost components to the Italian firm (or also finished product for global markets) would be uncompetitive if they stayed in China, therefore those firms that saw China as their low cost factory are redirecting new investments to other countries, if not leaving China altogether. The companies that remain are those that have decided to accept the higher costs of China (which go together with better efficiency and higher quality of the production) to serve mainly the growing local market and to produce medium range products that can be sold worldwide to complement the top of the range products still manufactured in Italy.

All those factors point to relatively slow growth of the overall trade between the two countries.

Table 30 Hourly wages in selected countries 2016–2020. In US: dollars

Country	2016	2017	2018	2019	2020	Δ 16–20 (%)
China	4.99	5.21	5.51	5.78	6.5	30.26
Mexico	3.82	4.16	4.45	4.66	4.82	26.70
Vietnam	2.38	2.55	2.73	2.91	2.99	25.6

Source Statista https://www.statista.com/statistics/744071/manufacturing-labor-costs-per-hour-china-vietnam-mexico/

Another external factor deriving from China's policies can affect bilateral business dynamics: the *Belt and Road Initiative* that has among its objectives the consolidation of economic relations with all the countries involved in it. In this case, too, the effects can be ambivalent. On the one hand, being involved in the *BRI* can bring renewed and favourable occasions for companies that invest in China to establish production facilities for advanced goods and integrate in the Chinese market. It can open the way, through framework agreements, to an increase in exports. Finally, it can offer the possibility to the Italian companies that are collaborating well with Chinese partners to participate in the works on *BRI*-related infrastructure development in other *BRI* countries. On the receiving side, it can increase investments by Chinese firms in acquisition of Italian companies that would thereafter have broader access to China and *BRI* connected markets, as well as greenfield market-seeking investments by Chinese firms interested in the Italian and European markets. There are potentially important opportunities for BRI-related Chinese investments in Italian logistic infrastructures that would be quite important to enhance a fading Italian pivotal role in strategic activities in the strategic Mediterranean environment.

The downside of these possibilities is linked both to the ability of the Italian firms and the Italian government to exploit the opportunities and to the willingness of the Chinese companies and government to allow such exploitation. The exploitation of opportunities offered by the Chinese market depends on how well framework agreements are put to use. In this regard, the doubts mentioned earlier are still extant: not all the Italian firms that would be interested in being present in China have the capability or the resources to be successfully present and the 'country-system' is not as helpful as would be desirable. The participation in *BRI* related infrastructure projects in other BRI countries for the moment appears to be only theoretical. Almost all infrastructural projects within the *BRI* initiative are implemented by Chinese firms, mostly with Chinese manpower, with minimal contribution from local companies, therefore it appears unlikely that Italian companies could be involved in any significant way.[21] Chinese companies may increase investments in Italy, particularly in the present situation, where the Covid-related contraction of economic activities has caused serious difficulties to quite a few Italian firms, making them potential targets of acquisition. Investment in infrastructure is less likely than was expected when the talk was of the *twenty-first century maritime silk road* having as termini the ports of Northern Italy.

This brings to attention the geopolitical processes that influence the bilateral trade between Italy and China. The growing 'strategic competition' between the USA and China has an inevitable spillover in the economic field, affecting all countries. Therefore, also economic and trade links between Italy and China will be influenced by it.

The involvement of Italy in the *BRI* gives a clear indication of the effects of the mingling of business and geopolitical dynamics. Italy was among the first large European countries to consider active participation in the initiative. And, indeed, it was the first G7 country (and the first of the founding countries of the EU) to negotiate and sign a *BRI*-related Memorandum of Understanding with China (March 2019). Although quite a few EU countries had already signed a *BRI* MoU with China,[22] this raised concerns in the USA and in the EU about an Italian 'waltz round' in a moment of heightened tension with China. It is certainly not by chance that the text MoU recalls in the first part the existing ‘international commitments’ of the parties. The text of the MoU, moreover, is quite general and generic.[23] There were a few (29) contextual economic agreements worth in perspective about 7 billion Euros. From the economic point of view, it was not particularly striking; for China, it was a good diplomatic success, however more symbolic than economically significant. Although by early 2021 10 EU countries, including the biggest ones, had not acceded to the *BRI*, the EU as a whole had kept pursuing a comprehensive agreement with China, intensifying the efforts in 2019 and 2020, finally signing the Comprehensive Agreement on Investments in December 2020.[24] Not many advantages came to Italy from her earlier breaking the ranks with the main EU countries. This shows that Italian companies must be more proactive in their contacts with China and find out the way to put substance in the framework agreement. Signing an MoU is not a necessary condition to do good business with China (as demonstrated by the fact that after signing the MoU in Rome, President Xi Jinping went to Paris where, without reference to the *BRI*, he signed trade agreements with France worth 30 billion Euros), nor a sufficient one.

BRI presents an additional point where the mingling of economic and geopolitical aspects becomes evident and may become contentious. One of the most important aspects of *BRI* is infrastructure investments. Although most of them are in Asia, Europe, as the final destination of many BRI corridors, is also involved. In particular, China has invested in several seaports, both in the North Sea (such as Zeebrugge in Belgium) and in the Mediterranean (first of all, Piraeus in Greece). There are good business reasons for these strategic investments in logistics, as they allow a more efficient and controlled conveyance of Chinese exports to European markets. It is not surprising that Chinese companies have invested and operate in a number of seaports in Italy. Indeed, the seaports in the Northern Adriatic (Trieste, Venice) make an ideal terminus for goods directed to Central Europe. However, the control of seaports has also an important geopolitical reflection, because it allows to direct commercial traffic to the most appropriate destination. When a government can induce companies to act in concert with the national authorities, i.e. when market considerations are subsumed into the national interest (and in China, this appears to be the basic operational rule), then the most appropriate destination to where direct commercial traffic is not only where it is economically more efficient but also where it is more expedient in function of the evolution of the political relations with the various countries. The potential sensitivity of this situation compels the government and the companies of the receiving country to thread carefully. Within the *BRI*-related MoU signed by Italy, two cooperation agreements were included, between two Italian Port Authorities and China Communications Construction Company (CCCC), concerning the seaports in the Ligurian Sea and the Northern Adriatic (in particular Trieste). After two years not much has materialised in terms of Chinese investments and acquisitions in those port systems, but the German company HHLA acquired a large and important part of the Trieste port in September 2020 (D’Amelio, 2020), shortly after the USA government had put CCCC on the black list of Chinese companies.

This is a clear indication that closer links with China will be always assessed also in function of their potential geopolitical impact. China has shown many times and more forcefully of late, that international commercial relations are considered part of her foreign policy, introducing a degree of imponderability in any commercial initiative of companies (if my government does or says something that displeases the Chinese government, my commercial links with the Chinese company go down the drain). Italy has perceived that a 'round of waltz' cannot develop into something more engaging without having some consequences.

In conclusion, the perspectives of bilateral trade between Italy and China are per se positive, although Italian firms will have to work hard to give substance to them. It appears that this is happening and that trade between the two countries is flourishing (according to ISTAT, in February 2021 both exports to and imports from China grew significantly).[25] There are good economic grounds to expect also an increase of investments in each other.

All these positive expectations are, however, temperate by the realisation that geopolitical dynamics are more fluid than they were in the past and might upset the economic assessment of the firms engaging in commercial exchanges with China.

Notes

1. Benito Mussolini and Fascist Italy were considered by Chiang Kai-shek as good examples of national renaissance and strong leadership to be followed; consequently, up to the mid-1930s, the relations were quite warm.
2. The relations with the Republic of China deteriorated in step with the rapprochement of Italy with Japan linked to Italy's adhesion in 1937 to the Anticomintern pact previously signed by Germany and Japan. The recognition by Italy in 1938 of the state of Manchukuo definitely cooled relations with the Republic of China.
3. <https://www.macrotrends.net/countries/CHN/china/exports> China Exports 1960–2021 . www.macrotrends.net. Retrieved 2020-12-07.
4. Meneguzzi-Rostagni (2012), Italia e Cina un secolo di relazioni, *Italogramma*, Vol. 2, pp. 43–53.
5. Gabusi and Prodi (2020), "Reality check": le relazioni bilaterali Italia-Cina in ambito economico dagli anni Settanta alle "nuove Vie della Seta", TWAI (Torino World Affairs Institute), https://www.twai.it/articles/economia-italia-cina-storia-recente/.
6. <https://www.macrotrends.net/countries/ITA/italy/exports> Italy Exports 1960–2021. Retrieved 2020-12-07.
7. Until 1998, all the data of the countries of the Euro area were in the national currency, which is converted in Euros at the transition rate, by the various national statistical services.
8. In these eight years, Italian exports to China more than trebled (a 224% increase) but imports from China multiplied more than fivefold (a 418% increase), hugely increasing the Italian trade deficit from 3.7 to 25.2 billion US$.

9. Chinese trade integration was considered a risk for countries specializing in products that intensively use medium or low qualification factors of production since, according to the theory of factorial endowments, at that time in its development, China should specialize in these productions.
10. This happened not only because of technology acquired through joint ventures or other means but also more simply through the use of imported machinery, technologically more advanced than the ones previously in use in Chinese factories, which helped to improve the quality of Chinese products.
11. For most of the first thirteen years of this century, exports of jewellery were the 4th item among Italian exports to Hong Kong and their value kept increasing: from 205 million UD$ (7% of the total) in 2001 to 430 million and 9% of the total in 2010. The use of Hong Kong as a conduit for trade with China is not new, not limited to jewellery and not limited to Italian exporters. In the specific case of Italy, an example can be given for the year 2016. According to data from ICE (Italian Trading Agency), out of 7.4 billion US$ of Hong Kong imports from Italy in that year, goods for about 2 billion—almost one quarter of the total—was re-directed to Mainland China (ICE-Hong Kong 2017).
12. The Italian eyewear industry has been world market leader for a long time, being overtaken by China towards the end of the first decade of this century. But still in 2019, Italy had a 21% share of the world exports, second only to China. However, in the higher segments of the market, Italian exports are in first position with about 70% of the total. (ANFAO 2020).
13. The concession of Tianjin was attained by Italy in 1901 as a consequence of the intervention of an international force (expression of the Eight-Nations Alliance) to quell the Boxer uprising.
14. It ended under Japanese bombs in January 1938.
15. The first SEZ, established in 1980, were Shenzhen, Shantou and Zhuhai in Guandong and Xiamen in Fujian. See Yeung et al. (2009).
16. Data on Italian FDIs in China are not very precise, being collected in different ways by different institutions. Moreover, the basic source, the Banca d'Italia, changed methodology in the 2010s and therefore data are not exactly comparable in a historical series. Various *ex-post* adjustments in reports from the same source in different years make it quite difficult to present a correct and coherent picture.
17. To give an idea of the differences in the data from official sources, due to different ways to calculate various items, the data from ICE-ISTAT from 2013 are presented together with the data from the Banca d'Italia (available for the rest of the decade only).
18. In this year, the Banca d'Italia (Bank of Italy), which is the source of the data on FDIs used by ICE, adopted a new methodology to report all the data on the balance of payments. ICE, too, changed the way it showed the data in the *Annuario*. Data reported in the new way are not comparable with the previous ones. In particular, data on gross flows are not available as before.
19. Provisional UNCTAD data. In UNCTAD, Key Statistics and Trends in International Trade 2020, January 2021.

20. At the time of writing, data at this level of detail are available only from Italian sources (ICE) that classify the sectors of activity according to the Italian classification system of economic activities (ATECO), which is partially different from the HTS. This explains why many figures given here for 2019 differ from those given in Tables 9, 10, 11 and 12.
21. An exception to this lack of involvement of Italian companies in *BRI* related activities is the contract, signed in occasion of the signature of the *BRI*-related MoU, between the Gruppo Danieli and the China CAMC Engineering Co for the setting up of an integrated steel production facility in Azerbaijan.
22. By 2019, all the central and eastern European countries belonging to the EU, from Estonia to Bulgaria, had already signed such a MoU. By 2020, also Greece and Portugal had done so.
23. For the text of the MoU and the contextual agreements see http://www.china-italy.com/it/belt-road-initiative-accordi-e-collaborazioni-fra-italia-e-cina.
24. For the EU-China Comprehensive Agreement on Investment and its path see https://trade.ec.europa.eu/doclib/press/index.cfm?id=2115.
25. ISTAT, Commercio estero extra UE—febbraio 2021, https://www.istat.it/it/archivio/255725.

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