Europe in the Face of US-China Rivalry

Edited by: Mario Esteban and Miguel Otero-Iglesias along with Una Aleksandra Bērziņa-Čerenkova, Alice Ekman, Lucrezia Poggetti, Björn Jerdén, John Seaman, Tim Summers and Justyna Szczudlik

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A Report by the European Think-tank Network on China (ETNC)
January 2020

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FOREWORD

FOREWORD

The European Think-tank Network on China (ETNC) is a gathering of China experts from a selection of European research institutes. It is devoted to the policy-oriented study of Chinese foreign policy and relations between China and European countries as well as China and the EU. It facilitates regular exchanges among participating researchers with a view to deepening the understanding within the European policy and research community and the broader public of how Europe, as a complex set of actors, relates with China and how China's development and evolving global role is likely to impact the future of Europe. The network's discussions and analyses take a decidedly 'bottom-up' approach, accounting for the various aspects of bilateral relations between European countries and China, and the points of convergence and divergence among EU member states in order to examine EU-China relations in a realistic and comprehensive way.

The network was first launched on the initiative of the Elcano Royal Institute and the French Institute of International Relations (Ifri) in Brussels on 6 November 2014. This meeting brought together experts from eleven EU member states, as well as observers from EU institutions. The ETNC members decided to meet in a different capital every six months and the Mercator Institute for China Studies (MERICS) joined Elcano and Ifri in their efforts to move the project forward. The network now counts members from 21 research institutes in as many countries, and each participates on the basis of equality.

ETNC strives for independent policy research and analysis and, since its inception, is entirely funded by its participating members. The topics treated in ETNC reports are debated and decided upon collectively by its members. The views and analysis provided in each chapter are the sole responsibility of the signed author or authors and do not in any way represent the views of all ETNC members, participating institutes, nor the institutes with which the authors themselves are affiliated.

The editing of this year's report has been led by the Elcano Royal Institute, with editorial review provided from Ifri, MERICS, the Polish Institute of International Affairs (PISM), The Royal Institute of International Affairs (Chatham House), The Swedish Institute of International Affairs (UI) and the Latvian Institute of International Affairs (LIIA), with active participation from all ETNC members. Preparatory work was conducted during meetings in May 2019 at the Institute of International Economic Relations (IIER) in Athens and in October 2019 at The Netherlands Institute of International Relations (Clingendael) in The Hague. The final chapters were submitted in November 2019.

Previous ETNC Reports:

- Mapping Europe-China Relations: A bottom-up approach (November 2015)
- Europe and China's New Silk Roads (December 2016)
- Chinese Investment in Europe: A country-level approach (December 2017)
- Political Values in Europe-China Relations (December 2018)

LIST OF INSTITUTIONS CONTRIBUTING TO ETNC

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Coordinating institutions

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

Participating institutions

- Austrian Institute for European and Security Policy (AIES), Austria
- Egmont Royal Institute for International Relations, Belgium
- Institute for International Relations (IIR), Czech Republic
- Danish Institute for International Studies (DIIS), Denmark
- Finnish Institute for International Affairs (FIIA), Finland
- Institute for International Economic Relations (IIER), Greece
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- Norwegian Institute of International Affairs (NUPI), Norway
- Polish Institute of International Affairs (PISM), Poland
- University of Aveiro, Portugal
- Institute for World Economy, Romanian Academy, Romania
- Central European Institute of Asian Studies (CEIAS), Slovakia
- The Swedish Institute of International Affairs (UI), Sweden
- Swiss Forum on Foreign Policy (Foraus), Switzerland
- The Royal Institute of International Affairs, Chatham House, United Kingdom

EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

The European Think Tank Network on China (ETNC) has devoted its fifth year of meetings and research to analyse –from a national, bottom-up approach– how the EU is responding to increased US-Chinese geopolitical rivalry.

This report contains 18 country chapters, all from EU member states, and a further one focused on the EU's perspective on Europe's difficult balancing act between the US, a long-term strategic and economic partner, and China, the EU's second most important market and, probably, the next economic superpower.

The evidence presented in this report shows how US unilateralism and Chinese assertiveness have triggered a rethinking of the EU's strategic landscape. Despite the differences between EU member states, its key finding is that all the countries analysed are in a similar position. They all consider the US their most important ally and they all depend on its military protection, but they also want to do as much business with China as possible.

These contradictory trends are even more apparent considering that Washington is increasing its security presence in countries like Hungary, Greece and Poland, whereas the economic growth dynamic appears to be in China's favour. Hence, far from being persuaded about a possible decoupling, the European economies are trying to maintain and even enhance their economic engagement with China, but this is now done with more awareness of the strategic dimensions involved and with new defensive tools, such as the European investment screening mechanism.

In several chapters China is seen as a key partner in tackling global challenges and global governance issues such as climate change, the reform of the WTO and the Iran nuclear deal. However, many other texts reveal the same complaints that are voiced in Washington DC, namely a certain suspicion and mistrust of the Belt and Road Initiative (BRI), unease about the lack of market access and fair competition and concerns about the theft of intellectual property, cyber-espionage, the acquisition of European strategic technology and infrastructure, the human rights track record in Tibet and in Xinjiang, and the concentration of power in the hands of Xi Jinping.

However, while many European policymakers share the complaints that are voiced by Washington about China's state capitalist model, the nature of its political system and its strategic ambitions, on a range of issues the Trump Administration, too, is seen as undermining some European interests and values: the drop-out from the Paris climate agreement, the way the US seeks to push for WTO reforms, the undermining of the UN, the approach to the nuclear deal with Iran (JCPOA) and the nuclear arms control treaty (INF) and Trump's protectionism and his criticism of NATO and the EU are cases in point.

The EU sees trouble in both its major partners, and in their rivalry, but it also needs them both for its prosperity. By performing this balancing act, the common European objective is to avoid a bipolar system in which EU member states are forced to pick sides on all relevant policy issues. This is reflected in the reluctance of many member states to issue a blanket ban on Chinese companies' access to their 5G markets.

This report also highlights the different strategies employed by the various EU countries to implement this balancing act. States like Portugal, Greece and Italy, due to their history and geographical location, are keen to present themselves as a bridge between the US and China.

Some, like Hungary, are trying to play the two powers against each in other to extract possible concessions. Furthermore, Hungary is also playing with both powers to hedge against Franco-German dominance in Brussels. The previous Italian government –comprising the 5 Star Movement and Salvini's League– was following a similar approach.

Others, like Latvia, Romania and Slovakia, prefer to avoid trouble by maintaining a low profile, in wait-and-see mode.

Finally, there is a group led by France, Germany and Spain that is working with Brussels to enhance the EU's strategic autonomy and economic sovereignty, including the capacity to develop critical core technologies autonomously, independent from China while managing or hedging dependencies from the US.

So far, Europe's strategy has been to keep building up the liberal system mainly on a bilateral basis with like-minded countries, by signing free trade agreements with Canada, Japan and Mercosur, but also to toughen-up in order to be able to compete with geopolitical heavyweights such as the US, Russia and China in the digital era.

Strategic autonomy is not clearly defined yet, but even if the degree of motivation and ambition on the issue is very different across the EU, the concept is gaining traction among member states to navigate an international order less based on rules and more on muscle.

INTRODUCTION

INTRODUCTION

Miguel Otero-Iglesias & Mario Esteban

How to respond to increased US-Chinese geopolitical rivalry is one of the most heated questions currently being debated in Europe. It is therefore no surprise that the European Think Tank Network on China (ETNC) has decided to devote its fifth annual report to the topic. European capitals are now confronted with two forces that are destabilising, in their own particular ways, the liberal, rules-based international order that helped to create the EU in the first place, and to which the EU has dedicated enormous efforts since the Fall of the Berlin Wall, 30 years ago.

On the one hand, after the global financial crisis that hit the West hard in 2008-12, especially the Eurozone, China emerged as a more assertive and self-confident global economic power due to both external and internal factors. This can be seen in its decades-long growth trajectory, its acceleration in value-added technology, its more proactive role in international affairs, the promotion of its ambitious Belt and Road Initiative (BRI) and a more forceful defence of its territorial claims in the South China Sea. After Beijing strengthened its authoritarian rule with the abolition of presidential-term limits, hardened its crack-down on Xinjiang and increased its assertiveness in Europe through aggressive public diplomacy campaigns, the EU labelled China not only a 'strategic partner' but also a 'systemic rival' in its March 2019 strategic outlook on the country.[1]

On the other hand, Donald Trump's arrival at the White House, along with his unilateralism and protectionism, has generated serious concern. For the first time in living memory a US President has declared the EU a 'foe' and has questioned the sanctity of the North Atlantic Treaty Organisation (NATO). While many European policymakers share the complaints voiced by Washington about China's state capitalist model, on a range of issues Trump is on the opposite side of European interests and values: the Paris climate agreement, the reform of the WTO, the importance of UN, the nuclear deal with Iran (JCPOA), the nuclear arms control treaty (INF) and Trump's possible ambition to decouple the US from China. This has led European leaders like Angela Merkel and Emmanuel Macron to argue that Europe must take its fate into its own hands.[2]

Against this backdrop, the literature on the US-China-EU strategic triangle has started to address the implications of the US-Chinese trade war and its long-lasting effects in its multiple dimensions.[3] The overall consensus is that, caught in the crossfire, the EU is faced by a seemingly irreversible disruption of the multilateral trade system arising from fierce competition from China's state capitalism and US unilateral tariffs. Hence, increased US-Chinese economic, technological and geopolitical rivalry entails significant risks for the EU's interests, leading to political fragmentation as highlighted by the lack of common positions on Huawei's role in European 5G networks, Chinese inward investments, the South China Sea disputes or the endorsement of the Belt and Road initiative.[4]

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1 European Commission and HR/VP (2019), 'EU-China – A strategic outlook', 12/III/2019, https://ec.europa.eu/commission/sites/beta-political/files/communication-eu-china-a-strategic-outlook.pdf.
2 Paravicini, G. (2017), 'Angela Merkel: Europe must take "our fate" into own hands', *Politico Europe*, 28/V/2017, https://www.politico.eu/article/angela-merkel-europe-cdu-must-take-its-fate-into-its-own-hands-elections-2017/.
3 A. García-Herrero (2019), 'Europe in the midst of China-US strategic economic competition: what are the European Union's options?', Bruegel; R. Niblett (2018), 'How Europe will try to dodge the US-China standoff in 2019', Chatham House.
4 B. Dekker & M. Okano-Heijmans (2019), 'Europe's next move and the US-China standoff. In the face of the US-China trade-tech standoff, there's need for EU action', *The Diplomat*; and J. Smith & T. Taussig (2019), 'The Old World and the Middle Kingdom: Europe wakes up to China's rise', *Foreign Affairs*, vol. 98, nr 5.

For most experts the EU is in a difficult balancing act between the US, its long-term strategic and economic partner, and China, the EU's second most important market and, probably, the next economic superpower. Furthermore, for the EU to have an active role in shaping the international order, the literature suggests that it would have to undertake substantial reforms both domestically and in the global arena (in cooperation with other partners), ranging from an overhaul of the WTO system to a redefinition of its own economic and foreign policy –encompassing industrial policy proposals and strategic autonomy–, while preserving core liberal values within its own member states.[5] Certainly not an easy endeavour.

As on previous occasions, the European Think Tank Network (ETNC) wants to contribute to the debate from a national, bottom-up approach. Our added value is to analyse US-Chinese rivalry from the perspective of Europe's capitals by providing a more in-depth and detailed account of what is discussed and decided there. On this occasion we provide 18 country chapters (all from EU member states) and one indispensable chapter focused on the EU perspective. After reading them it becomes clear that US unilateralism and China's assertiveness have triggered a rethinking of the strategic landscape in the EU. While, before, economic and geopolitical considerations tended to be dealt with separately, there is a heightened perception in the European capitals that both the US and China are using their economic strength for geopolitical gains, as discussed elsewhere.[6] This report confirms this and delves more deeply into how this is changing the strategic outlook in most EU member states.

The evidence collected here also shows that there is an understanding that US-Chinese rivalry is a long-term phenomenon and that both will use their statecraft to increase their competitiveness in the impending digital revolution. In general, therefore, there is a sense of increased 'double trouble'. The EU needs to prepare for a new world of great power rivalry, although there is no clear consensus on how to do so. This is in part because EU member states have their historically, geographically and culturally bound national idiosyncrasies in dealing with both the US as the incumbent superpower, China as the re-emerging power and ultimately the geostrategic rivalry between the two.

Nonetheless, despite the differences, the key finding from this report is that all EU member states are in a somewhat similar position. They all consider the US their most important ally and they all depend on its military protection, but they also want to do as much business with China as possible. With this balancing act, the common European objective is to avoid a bipolar system in which EU member states are forced to take sides. Most European policymakers agree with Trump that China needs to be more transparent, open its market, play by the rules and level the playing field, but they disagree with his methods. This has triggered a sense of vulnerability and loneliness in many European capitals and a lively debate about the need to increase the EU's strategic autonomy.[7]

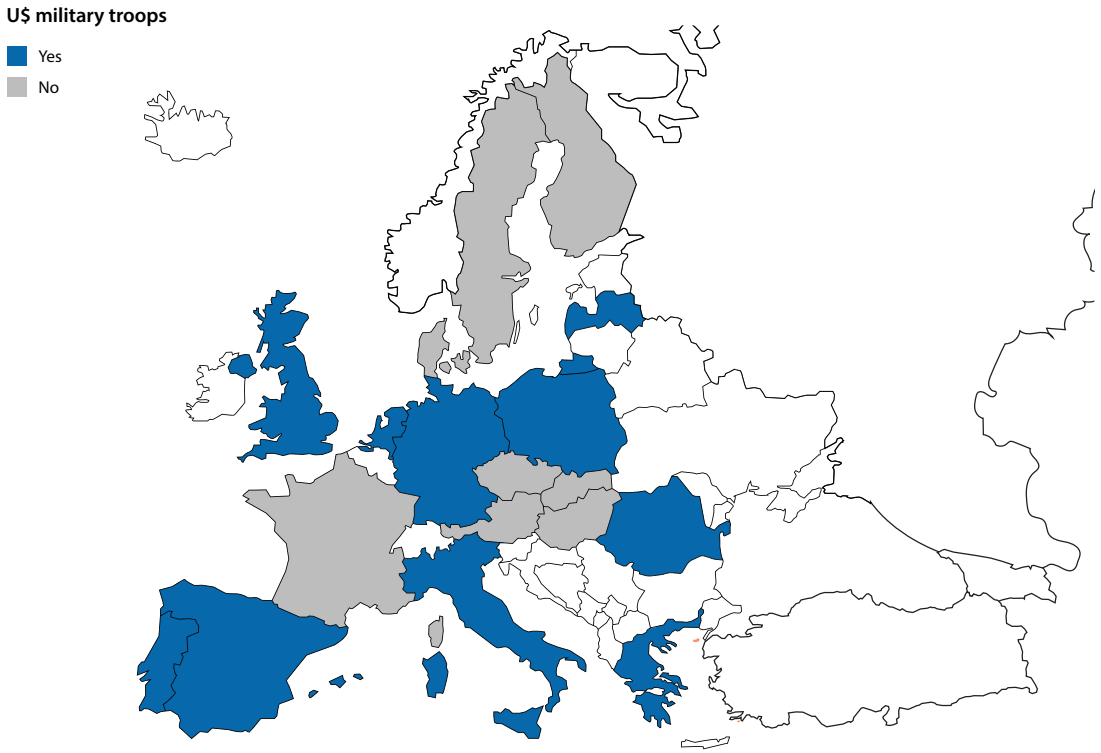
5 A. González & N. Veron (2019), 'EU trade policy amid the China-US clash: caught in the cross-fire', Bruegel; D. Ciuriak (2018), 'The US-China trade war: costs, causes, and potential responses by tier II powers', SSRN; J. Heering (2019), 'Europe first – The European response to Made in China 2025 and America First', CSIS; and T. Gomart (2019), 'L'Union Européenne, à la recherche d'un positionnement géopolitique', Études.
6 M. Leonard *et al*. (2019), 'Redefining Europe's economic sovereignty', Bruegel, 25/VI/2019.
7 D. Fiott (2019), 'Strategic autonomy: towards "European sovereignty" in defence?', EUISS, November.

Relations with the US

Although Trump's unilateralism and protectionism have unsettled many policymakers, businesspeople, pundits and ordinary citizens in Europe, the US remains without a doubt the most important ally for all EU member states covered in this report. This is as much so for countries like Austria and Finland, which are not in NATO but cooperate on security and defence with the US, as for traditional US military partners such as the UK and Denmark. The security umbrella that the US offers all EU member states is at present irreplaceable, particularly for Central and Eastern European (CEE) countries that fear Russia, but also for countries like Greece, which has its geopolitical tensions with Turkey despite both being NATO members.

US troops are present in many countries across the EU landscape, from Portugal in the South-West to Latvia in the North-East, and from Greece in the South-East to the UK in the North-West (see below). In countries like Latvia the perception is that their statehood depends on the US. Similarly, Poland wants permanent US bases on its territory to be better protected from Russia. This is illustrative of US dependency.

Figure 1. EU countries covered in this report with US troops



Source: Compiled by authors

History also matters. Most of the states analysed here have longstanding relationships with the US since the latter's War of Independence or even earlier (certainly the case for the UK, but also for France, Spain, Portugal and the Netherlands), which have developed over the centuries in deep economic and personal connections that have created a deep sense of interdependence. The German, Greek and Italian diasporas in the US are large and influential. There are also deep, common roots in the founding political philosophies of the French Republic and the US, which have forged similar political values and democratic systems on both sides of the pond that stretch beyond contemporary France.

Besides this cultural proximity, the US is still a much bigger export market for most EU member states than China (see trade figures further down). The historic connections are even more pronounced in investments. The stock accumulated over decades of US foreign direct investment in Europe, and that of European countries in the US, far exceeds the figures for China (see the figure below). There is also a significant tech dependency in many EU member states on US companies. This is quite evident in Internet services such as digital platforms (Google, Netflix, Amazon, Airbnb, etc.) and social media (Facebook and Twitter). An estimated 92% of the Western world's data are stored in the US.[8]

Figure 2. EU member states FDI (stock) position with China and the US, % of total, 2017

	China Outward	China Inward	US Outward	US Inward	China Total	US Total	Difference
Austria	1.94	2.13	4.79	7.32	2.02	5.93	-3.91
Czechia	0.14	0.87	0.15	6.89	0.76	5.87	-5.11
Denmark	3.42	0.67	7.83	5.31	2.41	6.91	-4.50
Finland	-0.41	10.18	1.50	10.95	4.01	5.44	-1.43
France	2.17	0.95	17.48	9.37	1.71	14.43	-12.72
Germany	5.87	0.34	16.67	9.84	3.81	14.13	-10.32
Greece	12.06	2.32	13.13	2.99	5.95	6.77	-0.82
Hungary*	0.12	5.51	5.42	14.50	4.13	12.19	-8.06
Italy	2.66	1.47	7.26	8.68	2.15	7.87	-5.72
Latvia	0.05	0.55	4.77	0.99	0.50	1.36	-0.86
Netherlands	1.28	0.87	15.38	13.22	1.11	14.51	-13.40
Poland	0.28	0.54	2.72	10.99	0.51	10.07	-9.55
Portugal	0.04	4.36	1.11	1.26	3.14	1.22	1.92
Slovakia	1.70	0.14	0.79	0.64	0.23	0.65	-0.42
Spain	1.11	0.39	15.41	4.49	0.73	9.66	-8.94
Sweden	3.89	2.93	14.83	7.45	3.44	11.40	-7.96
UK	0.89	0.25	23.48	22.85	0.58	23.16	-22.59

Source: OECD.stat, compiled by authors. *Hungary figures from national sources. **Last column shows difference between US and China share of total FDI (in and outward) of each country.

8 L. Laurent (2019), 'Macron and Merkel are caught in a New Cold War', Bloomberg, 14/XI/2019, https://www.bloomberg.com/opinion/articles/2019-11-14/technological-sovereignty-france-and-germany-join-a-new-cold-war.

Ironically then, many EU member states, and the EU itself, have a 'strategic partnership' with China, although the label is more accurate to describe relations with the US. Nonetheless, this does not mean that relations are optimal. Differences and tensions have appeared even before Trump. The chapters on France and Germany go back to the Iraq war and the Snowden leaks that pointed to US espionage and Trump's unilateralism has brought the US image in Europe to a new low. His disregard for multilateralism has angered many Europeans, who fear the death of the liberal international order. This is reflected in the Pew Research survey data that show how Europeans are some of Trump's most vocal critics.[9]

While the relationship with the US is much more comprehensive and strategic, the approach of most EU member states towards China is far more narrowly focused on the business opportunities.

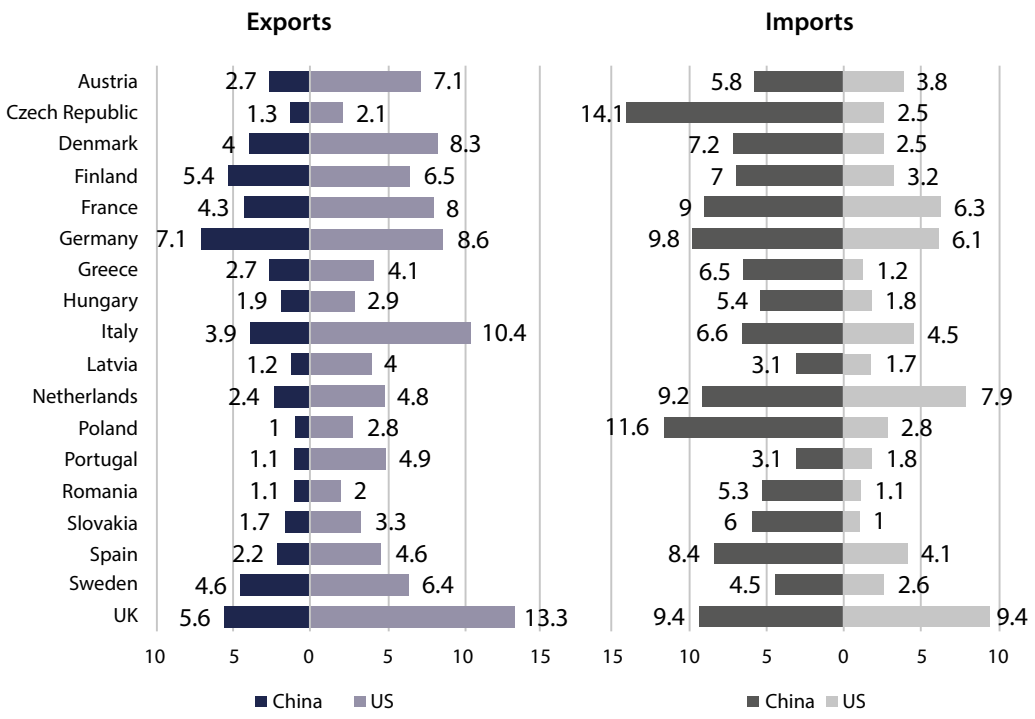
The effects can be summarised in two quotations from the German and the Dutch chapters of this report. 'Only around 7% of Germans believe that Europe and the US should work more closely to counter growing Chinese assertiveness globally'; and 'The Dutch see Trump's America First policy as an assault on multilateralism and symptomatic of the demise of US leadership on the global stage'. Nonetheless, this does not mean that Europeans are giving up on the US. As shown by the same Pew Research data, many prefer the US to be the leading world power rather than China.[10]

Relations with China

While the relationship with the US is much more comprehensive and strategic, the approach of most EU member states towards China is far more narrowly focused on the business opportunities it offers. Although on the export front the US wins clearly, China is already the biggest trade partner in goods for most EU member states due to the high volume of imports coming from there (see below) and its investment levels, from a clearly lower level to those of the US, are on an upward trend. In general, the growth dynamic appears to be in China's favour, with great opportunities especially in services.[11] Thus, despite misgivings about China's economic and political model, most European countries are keen to penetrate the Chinese market, to receive more Chinese investments (if they do not threaten their national security), to participate and gain contracts from the Belt and Road Initiative, and to see more Chinese tourists coming their way.

9 R. Wike *et al.* (2018), 'Trump's international ratings remain low, especially among key allies', Pew Research Center, 1/X/2018, https://www.pewresearch.org/global/2018/10/01/trumps-international-ratings-remain-low-especially-among-key-allies/.
10 *Ibid.*
11 European Commission (2019) 'Countries and Regions: China', 17/V/2019, https://ec.europa.eu/trade/policy/countries-and-regions/countries/china/

Figure 3. Exports and imports of goods with China and the US, % of total, 2018



Source: UN International Trade Statistics Database (Comtrade), compiled by authors.

The only area in which EU´s economic links are significantly more substantial with China than with the US is the import of goods as all the countries covered in this report, but the UK, import much more goods from China than from the US.

Figure 4. EU and member states trade in goods with China and the US, % of total, 2018

Economy \ Partner	China	United States	Difference
Austria	4.3	5.4	-1.1
Czech Republic	7.4	2.3	5.1
Denmark	5.6	5.5	0.1
Finland	6.2	4.8	1.4
France	6.8	7.1	-0.3
Germany	8.3	7.4	0.9
Greece	5.1	2.3	2.8
Hungary	3.6	2.4	1.2
Italy	5.2	7.5	-2.3
Latvia	2.3	2.7	-0.4
Netherlands	5.6	6.3	-0.7
Poland	6.3	2.8	3.5
Portugal	2.3	3.2	-0.9
Romania	3.4	1.5	1.9
Slovakia	3.8	2.1	1.7
Spain	5.6	4.3	1.3
Sweden	4.6	4.5	0.1
UK	7.8	11.1	-3.3
EU	15.3	16.9	-1.6

Source: UN International Trade Statistics Database (Comtrade), compiled by authors

In this regard, far from being persuaded about a possible decoupling, as discussed in the US, European businesses are trying to enhance their economic engagement with China, despite long-standing complaints about the rise of production costs, the lack of a level playing field or the promise fatigue about the (non-)opening-up of the Chinese economy that are regularly mentioned in the European Chamber of Commerce in China's position papers.[12] The attractiveness and potential of the Chinese market is just too tempting, and, as explained in the UK chapter, there is also a pragmatic understanding that there is a clear relative power shift from the US towards China. The creation of the Asian Infrastructure Investment Bank (AIIB) and the participation in it of many European countries is a case in point. Overall, the general attitude, as most clearly stated in the Romanian chapter, is to do as much business as possible with China as long as it does not endanger relations with Washington or, sometimes, even Brussels. This explains why despite

12 Euractiv (2019), 'EU firms hope China will make good on pledges to open market – report', 19/IX/2019, https://www.euractiv.com/section/economy-jobs/news/eu-firms-hope-china-will-make-good-on-pledges-to-open-market-report/.

the harder line adopted by the EU towards China in recent times, most countries have sent either a Minister or even a Head of State or Government to attend the 2nd Belt and Road Forum for International Cooperation in Beijing (see below).

Figure 5. Countries with a BRI MOU and their representation in the II BRI Forum

	BRI Memorandum of Understanding	Head of State or Government	Minister	Vice-minister or secretary of state	Lower ranked official	No participation
Austria		✓				
Czechia	✓	✓				
Denmark					✓	
Finland					✓	
France			✓			
Germany			✓			
Greece	✓	✓				
Hungary	✓	✓				
Italy	✓	✓				
Latvia	✓		✓			
Netherlands					✓	
Poland	✓			✓		
Portugal	✓	✓				
Romania	✓			✓		
Slovakia	✓		✓			
Spain			✓			
Sweden						✓
UK			✓			

Source: compiled by authors

In several chapters China is also seen as a key partner in tackling global challenges and global governance issues such as climate change, the reform of the WTO and the Iran nuclear deal. Nevertheless, in many other texts the same complaints that are voiced in Washington DC also appear, namely a certain suspicion and distrust as regards the BRI, and unease about the lack of market access in China, the theft of intellectual property rights, cyber-espionage, the buying of strategic technology or infrastructure, the human-rights track record in Tibet (and recently in Xinjiang), and the concentration of power in the hands of Xi Jinping. All this has pushed traditional liberal countries like the Netherlands to adopt a new philosophy based on being 'open where possible', but also 'protect where necessary' against China.

As the chapter on Sweden highlights, in many cases we are in a situation of 'hot economics but cold politics' with China. Politically speaking, since the start of the trade war between the US and China, far from getting closer to China because of US unilateralism and protectionism, many EU member states have hardened their position vis-à-vis Beijing. This is noticeable in countries

such as Germany, Spain and Poland that had a friendlier view only a few years back and is in line with media coverage, which in many countries is increasingly critical with the rise of China and Beijing's policies in the South China Sea, Xinjiang and Hong Kong. Of course, societies are not monolithic. There are internal divisions, with social groups closer to the US and highly critical of China and others more sympathetic towards China. See the chapters on the Czech Republic and Italy for good examples.

As in previous ETNC reports, the 16 and –now with Greece– 17+1 forum is also an issue of discussion in many chapters. From the perspective of Brussels, the forum is problematic because it might split the EU member states into different subregions. As explained in the Slovakian piece, however, for many CEE countries the platform is a good opportunity for their leaders to meet Chinese leaders. Nonetheless, as again explained in the Polish chapter, 17+1 does not offer great benefits to its members when it comes to attracting or gaining more Chinese investment or trade. In any case, Germany has decided to have a 27 or 28 (if the UK is still in the EU) +1 meeting in 2020 during its EU presidency. This is no doubt a reaction to the new geopolitical context and the increased desire within the EU to present itself as a united bloc in world affairs.

Dealing with US-China rivalry

All EU member states are increasingly in the crossfire between the two competing powers and are being forced to rethink their strategic outlook. Diplomatic pressure to take sides is increasing both from the US and China, and many countries are navigating unchartered waters if they want to follow the goal of remaining under the security umbrella of the US while pursuing as much business with China as they can achieve. The ambivalence is especially evident in the deployment of 5G technology in Europe, since most European telecom operators depend on Huawei equipment and the US Administration has actively lobbied against its use.

The US Secretary of State, Mike Pompeo, has reminded some of his European counterparts that the US has more leverage on Europe than China, as it can threaten to refuse to share its intelligence services if they continue to work with Huawei, although this has also shown its limitations. So far, not a single European country covered in this report has explicitly banned Chinese companies from its 5G networks, although it is true that almost all have changed and tightened their regulatory frameworks with the suspicion that Huawei might be the real target of the changes. In all member states there is concern about China's national intelligence law and how Huawei might at some point be forced to offer data or access to the Chinese Communist Party. Poland has taken a hard stand, and in countries like Sweden and Germany the discussion has moved from considering Huawei a possible network risk to a (geo)political risk. Nonetheless, despite these concerns, in several EU countries like Finland (the country of Nokia), Spain and Hungary, Huawei is already deploying 5G equipment.

Figure 6. 5G networks in the EU countries covered in this report

	Chines Equipment Explicitly Banned	Tighter Regulatory Framewok	No Regulatory or Political Response	Explicit/Implicit Authorization Chinese Equipment
Austria		✓		✓
Czechia		✓		
Denmark		✓		
Finland			✓	✓
France		✓		
Germany		✓		
Greece			✓	
Hungary				✓
Italy		✓		✓
Latvia		✓		
Netherlands		✓		
Poland		✓		
Porutgal		✓		
Romania			✓	
Slovakia			✓	
Spain		✓		✓
Sweden		✓		
UK			✓	

Source: compiled by authors

Over the past few years the US has been more forceful in trying to change the policies of EU member states in favour of its own national interests. The best example is the application of extraterritoriality in enforcing sanctions against Iran that affect all EU member states except Greece and Italy, which have waivers on the imports of Iranian oil. But there is also specific pressure on particular issues aimed at particular countries affecting China directly, like convincing Denmark to take over the construction of new airport infrastructure in Greenland from Chinese hands and the diplomatic lobbying to reconsider Chinese involvement in the construction of nuclear power plants in the UK.

On the opposite side, China is also starting to apply more forcefully its diplomatic pressure to convince EU member states to change their policies. While a few years ago the influence upon countries such as Greece and Hungary to back China on the South China Sea disputes or its human rights record was more subtle and under the radar, in recent times China's diplomatic campaigns are becoming more public and visible. This is evident in countries such as Sweden and Germany, where the press has become more critical with China and the Chinese embassy has felt the necessity to counter them. The campaign has included occasionally harsh criticism of journalists, media companies, human rights activists, scholars, politicians and government agencies that have been critical with Beijing. Chinese diplomats have also been very active in defending the reputation of Huawei throughout Europe, especially in Poland where two Huawei employees were arrested.

Overall, it is clear that Chinese diplomats are trying to use US unilateralism and protectionism to win over European minds, or at least to prevent them from siding with Washington in pursuing a hard line against Beijing. While the frustration and erosion of trust with the White House is increasing, and to a certain extent US diplomatic pressure on European countries is counterproductive, this does not mean that policymakers in European capitals are thinking of siding with Beijing to isolate Washington. Brussels and the European capitals do not see eye to eye with Beijing on many issues. Their efforts are more directed at how to navigate the new strategic map from a European perspective and, perhaps with the help of third like-minded players such as Canada, Australia, Japan and South Korea, reform the multilateral order so that it can survive despite Chinese and increasingly US unilateralist tendencies.

One of the key conclusions of this report is that the positioning of the EU member states vis-à-vis increased US-Chinese geopolitical rivalry does not differ that much.

The way forward: more 'cakeism'?

One of the key conclusions of this report is that the positioning of the EU member states vis-à-vis increased US-Chinese geopolitical rivalry does not differ that much. It is not that some countries are siding with the US and others with China. The evidence collected here suggests that no European country is siding with Beijing at the expense of Washington and all of them, to a greater or lesser degree, see the US as their strategic (and indispensable) ally. The trajectory in this field is also in Washington's favour. Countries that previously were close to the Chinese sphere of influence like Hungary and Greece have recently signed defence cooperation agreements with the Trump Administration, and key countries like Poland are asking to have US troops on a permanent basis on their soil.

Nonetheless, all EU member states covered here are also keen to increase their economic ties with China in the areas they see fit. This is now done with more awareness of the strategic dimensions of such an engagement, and with new defensive tools, like the European investment screening mechanism, but the desire to cooperate with China is still strong as shown by the current negotiations for a comprehensive investment agreement. In fact, in the strategic paper on China published in March 2019, the European Commission mentions the words 'rival' once and 'strategic partner' four times, the word 'competition' three times and 'cooperation' 21 times. In contrast, US Vice-President Mike Pence did not say the word 'cooperation' even once in his much-quoted speech on China at the Hudson Institute in October 2018,[13] although he softened his stance in his speech at the Wilson Center in 2019.[14]

This means that most EU countries need to perform a strategic balancing act that could be defined as 'cakeism'. In other words, wanting to have the cake and eat it when it comes to US-Chinese geopolitical rivalry. Be friends with both the US and China and maintain an ambivalent position that can even evolve into a brokering role. But this is not easy, and many wonder how long it might last if the US were to press harder. For now, the balancing act continues, and different countries have different strategies.

13 M. Pence (2018), 'Remarks on the Administration's policy toward China', https://www.whitehouse.gov/briefings-statements/remarks-vice-president-pence-administrations-policy-toward-china/.
14 M. Pence (2019), 'Remarks at the Frederic V. Malek Memorial Lecture', Wilson Center, 24/X/2019, https://www.whitehouse.gov/briefings-statements/remarks-vice-president-pence-frederic-v-malek-memorial-lecture/.

There is a group led by France, Germany and Spain that is working with Brussels to enhance the EU's strategic autonomy.

States like Portugal, Greece and Italy, due to their history and geographical location, are keen to present themselves as a bridge between the US and China. Others, like Hungary, are trying to play the two powers against each in other to extract possible concessions. Furthermore, Hungary is also playing with both powers to hedge against Franco-German dominance in Brussels. The previous Italian government –comprising the 5 Star Movement and Salvini's League– was following a similar approach. Others, like Latvia, Romania and Slovakia prefer to avoid trouble by keeping a low profile, in wait-and-see mode. Finally, there is a group led by France, Germany and Spain that is working with Brussels to enhance the EU's strategic autonomy and economic sovereignty, including technological autonomy independent from both the US and China.

As shown in the Figure below, European 'strategic autonomy' (which has no clear definition yet) is approached with concern mostly by Poland, which is against presenting the concept as an alternative to the US security guarantee for Europe and thereby alienating Washington in the new great power competition. Even Viktor Orbán, not the greatest Euro-enthusiast, has said that he is in favour of an EU military force,[15] but the degree of motivation and ambition in this respect is very different across the EU. Paris is certainly the most active player on this front, but Macron's[16] grand ideas are also creating a certain unease amongst other stakeholders, not only in Central and Eastern Europe but also in the Nordic countries. Germany (although reluctantly) is playing along, and the creation of the permanent structured cooperation (PESCO) and the European Defence Fund are the first manifestations of this. It is also worth noting that Germany, with the support of France, has launched the first European cloud, Gaia-X,[17] and has proposed a European industrial policy for 2030.[18]

15 C. Kroet (2016), 'Viktor Orbán wants an EU military force', Politico Europe, 26/VIII/2016, https://www.politico.eu/article/viktor-orban-wants-an-eu-military-force/.
16 The Economist (2019), 'Macron in his own words', interview transcript: https://www.economist.com/europe/2019/11/07/emmanuel-macron-in-his-own-words-english.
17 J. Delcker (2019), 'Germany's plan to control its own data', Politico Europe, 12/IX/2019, https://www.politico.eu/article/germanys-plan-to-control-its-own-data-digital-infrastructure/.
18 German Federal Ministry of Economic Affairs and Energy (2019), 'National Industry Strategy 2030', https://www.bmwi.de/Redaktion/EN/Artikel/Industry/nationale-industriestrategie-2030.html.

Figure 7. Approach to the concept of "strategic autonomy"

	In favour	Ambivalent	Against
Austria	✓		
Czechia		✓	
Denmark		✓	
Finland	✓		
France	✓		
Germany	✓		
Greece		✓	
Hungary	✓		
Italy	✓		
Latvia		✓	
Netherlands	✓		
Poland		✓	
Portugal		✓	
Romania		✓	
Slovakia		✓	
Spain	✓		
Sweden		✓	
UK		✓	

Source: compiled by authors

In pursuing more European integration and strategic autonomy, France and Germany can always count on Spain, one of the Union's most pro-European countries, but the interesting case studies on the issue in this report are, perhaps, Austria and the Netherlands, which until a few years ago were open economies keen on avoiding strategic positioning and always wary about Franco-German dominance and any possible protectionist instincts. In this regard, they could be labelled reluctant integrationists, although things seem to have changed in the current context of the 'double trouble' emerging from increased US-Chinese geopolitical rivalry. Both Austria and the Netherlands seem to be more enthusiastic about strengthening European strategic autonomy. Even Denmark, an EU country with an opt-out clause in security and defence matters, is warming up to it if it does not undermine NATO.

The EU and its member states have realised that they are ill-prepared for an international order less based on rules and more on muscle. They might agree with many US complaints about China, but they disagree on the confrontational strategy adopted by Washington. The European strategy so far has been to keep building up the liberal system on a bilateral basis with like-minded countries, by signing free-trade agreements with Canada, Japan and Mercosur, but also to toughen-up in order to be able to compete with geopolitical heavyweights such as the US, Russia and China in the digital era. The pressure exerted at the latest EU-China summit upon Beijing to agree on specific deadlines to finalise the negotiations on the comprehensive investment agreement or the determination to apply retaliatory tariffs against the US are proof of this. Ursula von der Leyen's aspiration to have a new 'geopolitical' European Commission reflects it too.

The next few decades will not be easy for European countries. Despite a possible respite in the run up to the US elections next year, US-Chinese geopolitical rivalry is likely to continue and have negative side-effects for Europe, no matter who the next US President is. The US will continue to pressure the EU to side with it to change Beijing's policies and thus put the Europeans in a difficult position.[19] Alternatively, if China and the US strike a trade agreement, the EU might be left behind and suffer too. Furthermore, trade disputes between the US and the EU could easily escalate. Even in the event of Europe's strategic autonomy becoming stronger, it is still a minefield. The US is already applying pressure on European countries to 'buy American' when it comes to new military equipment and to let US companies participate in the new European Defence Fund contracts, something opposed by Brussels, Paris and Berlin. If in addition to that, EU member states start to ring-fence their own Internet clouds, 5G networks and artificial intelligence, then the clash with Washington is almost assured.

The EU might continue to perform its strategic balancing act, but the longer it walks along the rope the more difficult it will be to continue on its course while keeping all its members on its shoulders.

19 J. Leonard (2019), 'Pelosi says US should align with EU to pressure China on trade', Bloomberg, 1/XI/2019, https://www.bloomberg.com/news/articles/2019-11-01/pelosi-says-u-s-should-align-with-eu-to-pressure-china-on-trade.

AUSTRIA AND THE GROWING US-CHINESE RIVALRY: FROM COLD WAR NEUTRALITY TO EUROPEAN SOLIDARITY?

AUSTRIA AND THE GROWING US-CHINESE RIVALRY: FROM COLD WAR NEUTRALITY TO EUROPEAN SOLIDARITY?

Adam Urosevic
Austrian Institute for European and Security Policy

Abstract

As a small trading nation, Austria is heavily reliant upon open and rules-based international trade. Accordingly, its relations with both the US and China are primarily driven by commercial considerations. China's Belt and Road Initiative (BRI) is seen as a particularly promising avenue for Austrian business, though the US remains the larger trading partner. With growing US-Chinese rivalry, new threats are looming: challenges to international trade, such as the exporting of Beijing's state-led economic system or Washington's growing use of tariffs and secondary sanctions, undermine Austria's competitiveness, which is based on participating in global value chains. Moreover, as a historically active player in the UN system and host to numerous international organisations, Austria risks losing international relevance and influence should multilateral institutions be turned into mere pawns of great power rivalry. Whilst it managed to avoid 'choosing sides' in the Huawei 5G case, Austria would be prudent to re-evaluate its dated understanding of neutrality and promote the EU's strategic autonomy amidst systemic US-Chinese rivalry.

Austria was one of the first Western states to establish bilateral relations with China and its bilateral relationship can be characterised as a 'friendly strategic partnership' driven by business interests. Ties have intensified since, and the signing of a 'friendly strategic partnership' in 2018 is considered to be proof of a relationship that has never been closer. Austria's primary motivation is that of most trading nations: to promote its economic interests. The April 2018 state visit to China, Austria's most high profile ever, as well as Chancellor Sebastian Kurz's attendance at the second BRI Forum highlighted this: the two countries set ambitious goals of increasing trade volumes from €13 billion to €20 billion and doubling the number of Chinese visitors to Austria to two million per year by 2025, whilst Austrian firms signed agreements amounting to €1.5 billion. Moreover, Austria recognises China's growing geopolitical significance and has decided to improve its visibility in the Asia-Pacific region through increased high-level exchanges of visits with China, Japan, India and other Asian states.

Yes to the new Silk Road – but with fair 'traffic' rules

Despite the lack of concrete BRI projects in Austria, officials welcome the initiative as it is seen to bear considerable potential both for the logistics industry as well as for Austrian companies in third markets, notably in the fields of infrastructure and transport technology, environmental protection and urban planning.[1] In 2018 Austria's Ministry of Transport, Innovation and Technology signed a so-called 'sectoral'[2] Memorandum of Understanding (MoU) on the BRI, while the Ministry of Economic Affairs signed an MoU on developing third-market cooperation. Upon signing, former

1 Austrian People's Party (2017), 'Government Programme, 2017-2022', December, https://www.dieneuevolkspartei.at/download/Regierungsprogramm.pdf.
2 Austrian officials repeatedly stressed that this differed from the 'general' MoUs China has signed with other countries.

Infrastructure Minister Hofer went as far as calling Austria a 'first mover on the BRI at a European level'.[3]

However, some Austrian businesses and officials are starting to be wary of China as a competitor, notably in the Balkans. In 2018 the Austrian construction company STRABAG, for instance, went to court, petitioning the EU to stop a Chinese consortium from building the 2.4km-long Peljesac bridge in Croatia and accusing it of breaking EU competition rules by receiving Chinese state aid. Despite the economic interests and Chinese pressure in the lead-up to the Chancellor's attendance at the second BRI Forum in 2019, Austria has yet to sign a 'general' MoU. Instead, Chancellor Kurz used his visits as an opportunity to demand easier access for EU businesses to China's market as well as fairer rules and transparency in the BRI. Austria is thus in line with the positions of Brussels, Berlin and Paris and will be closely monitoring developments in Italy, following its BRI MoU with China in March 2019.

China, Inc.

Like the US, Austria has come to perceive the Chinese state's participation in the economy to be pervasive. The 'Made in China 2025' strategy suggests that China aims to drive both Europe and the US out of their leading positions in technology through state-funded overseas investments that target cutting-edge technologies and are driven by strategic market and asset-seeking motives. The acquisition of Germany's leading robotics company Kuka was a watershed in Austria. With China becoming the sixth-largest investor within just a few years, Austria has seen its fair share of investments clearly aiming for technological know-how. Since the state-owned Aviation Industry Corporation of China purchased aviation supplier FACC in 2009, Chinese investors have acquired stakes and majorities in Austrian engine manufacturers, automation specialists, solar companies and other 'hidden champions'.[4]

Following recent US legislation and in light of the risk of losing national competitiveness as well as more traditional security concerns related to defence technologies, strategic assets and critical infrastructure, the Austrian government suggested a revision, in close coordination with Germany, of Austria's Foreign Direct Investment screening mechanism in May 2019. Though the country already had the least open FDI regime in the EU, the draft bill in May 2019 intended to broaden the scope of areas likely to affect 'security and public order', lower the acquisition threshold from 25% to 10% in sensitive sectors and form a new FDI Committee.[5] Remarkably, the bill obliges the management of Austrian target companies (ie, not just the acquirer) to file for FDI clearance if needed –meaning that they would potentially be exposed to criminal prosecution in case FDI rules were violated–.[6] Moreover, in July 2019 the head of Austria's national wealth fund ÖBAG said that the state holding company is considering acquisitions in key Austrian industries.[7]

3 Austrian Press Agency (2018), 'Minister of Transport Hofer concludes historic BRI Agreement with China', April, https://www.ots.at/presseaussendung/OTS_20180408_OTS0036/verkehrsminister-hofer-schliesst-historisches-seidenstrassen-abkommen-mit-china-ab.
4 The concept refers to highly successful companies, often market leaders in their respective fields, that are not known to the wider public.
5 Initially planned to enter into force in the summer of 2019, the dissolution of government has led to delays.
6 Sascha Hödl (2019), 'Transactions under political scrutiny – A new FDI regime in Austria', *Schönherr*, May, https://www.schoenherr.eu/publications/publication-detail/transactions-under-political-scrutiny-a-new-fdi-regime-in-austria/.
7 Rainer Nowak (2019), 'Öbag comes to life', *Die Presse*, July, https://diepresse.com/home/wirtschaft/economist/5665698/Oebag-erwacht-zum-Leben?from=suche.intern.portal.

US-Austrian relations: traditional partners with limited political relevance

Despite being firmly rooted in the West since benefiting from the Marshall Plan, the small non-NATO country's political relationship with the US is more distant than that of most EU states, notably since the end of the Cold War. As with China, Austria primarily sees the US as a key trading partner. The US is Austria's 2nd biggest trading partner, with which it has enjoyed a trade surplus since 2002, particularly in specialised industrial machinery, mechanical engineering products and medical technology. The government actively supported the Transatlantic Trade and Investment Partnership negotiations and worked hard to convey its benefits to a sceptical domestic audience. Though security relations remain limited, Austria is a member of NATO's 'Partnership for Peace' and occasionally participates in joint operations, notably in the Balkans. Intelligence cooperation remains mostly one-sided, as it pertains to using Vienna as a hub for intelligence activities around international organisations. As with most EU members, the US expects higher Austrian defence spending, which currently stands at 0.7% of GDP.

'America First' and Austrian collateral damage

Though Austria continues to consider the transatlantic alliance a pillar of European prosperity and security, the Trump Administration's willingness to use the country's economic and financial system as a geopolitical tool and disregard European concerns is seen as endangering the fundamental interests of Austria, which has a 55% export to GDP ratio and whose competitiveness is based on participating in global value chains. When visiting the White House in February 2019, Chancellor Kurz rebutted the President's zero-sum approach to trade and explained that looming car tariffs would gravely harm Austria through its significant car-parts supplier industry to Germany and cost jobs 'every second'.[8] The case of the Nord Stream 2 pipeline is widely considered the most urgent challenge that US unilateralism and secondary sanctions pose to Austria. Officials worry that US threats to impose secondary sanctions on Austrian energy group OMV, in which the state has a 31.5% stake, for its involvement in the project, will put the country's decision-making autonomy and thus energy security at risk.

Similarly, the US withdrawal from the Iran nuclear deal and imposition of secondary sanctions presents several major risks for Austria. First, it stands to lose commercially. Although the EU continues to back the deal, major Europeans companies such as Airbus, Total and even SWIFT have pulled out of their investments in Iran. Austrian businesses, most notably Oberbank, have followed suit. More importantly, the withdrawal has harmed the cause of nuclear non-proliferation, a key interest of Austria, which is at the forefront of international nuclear disarmament initiatives, most recently playing a leading role in the successful adoption of the UN's Treaty on the Prohibition of Nuclear Weapons. Lastly, the US decision has significant implications for Vienna as the official seat of various international organisations, including the International Atomic Energy Agency, where the Iran nuclear deal was negotiated. A weakening of these multilateral institutions would not only harm Vienna's more immediate commercial interests, but also harm Austria's security interests. According to its 2013 Security Strategy, Vienna's position as a hub of international organisations ensures a certain acknowledgment of Austrian interests in international security debates.[9]

8 Matthias Auer & Jakob Zirm (2019), 'The fronts of the economic war', Die Presse, February, https://diepresse.com/home/ausland/aussenpolitik/5583615/Die-Fronten-des-Wirtschaftskriegs.
9 Austrian Armed Forces (2013), 'Austrian Security Strategy', 2013, www.bundesheer.at/pdf_pool/publikationen/sicherheitsstrategie_engl.pdf.

Huawei as a wake-up call: from Austrian pragmatism to European strategic autonomy?

As in most European countries, the Huawei case was Austria's first notable instant of being involuntarily dragged into the growing US-Chinese rivalry. The US Ambassador to Austria, Trevor Traina, repeatedly urged the government to ban Huawei's 5G technology.[10] On the other hand, Huawei is allegedly opening a research centre in Vienna.[11] Awkwardly relying on both Chinese hardware and US software, Austria has remained largely silent on the issue and is tending towards the middle ground. In view of the majority of 5G auctions taking place in 2020, the country is designing tougher requirements for mobile network security whilst not singling out Huawei. Of the three major telecommunications companies in Austria, all in foreign hands, two have already decided in favour of suppliers other than Huawei. Only Magenta (a subsidiary of Deutsche Telekom) is still considering its 5G supplier, with Huawei reportedly in the lead.[12] Former Infrastructure Minister Hofer said that a full Huawei ban would be an innovation setback and a competitive disadvantage for the country.[13]

So far, Austria, like the EU, has remained largely insulated from the escalating US-Chinese rivalry and has managed to avoid choosing sides, adopting instead a balanced and pragmatic approach. It does not plan an outright ban on Huawei, nor has it fully signed up to China's BRI. On the multilateral level, Austria, as part of the EU, aims to engage with the US on reforming the WTO and ensuring stability in the Balkans, whilst partnering with China in safeguarding the Iran nuclear deal and in the fight against climate change following the ratification of the Paris Agreement (notably through cooperation in environmental technologies and smart-city initiatives).

Though the EU has managed to build a front against rising unilateralist and protectionist impulses by concluding a series of major trade agreements, its vulnerability will likely be further exposed through the weaponisation of economic interdependence (eg, China and the US politicising the WTO). There is growing awareness amongst European policymakers that the EU will have to go much further and chart a new strategic course forwards if it is to avoid being sandwiched between the US and China in an increasingly bipolar world.

While the issue has not reached prominence in Austrian public debates, policymakers are recognising the need for greater strategic thinking. During its EU Presidency in 2018, Austria supported the idea of increasing Europe's strategic autonomy and of building up its technological and industrial base. Moreover, the country has increased its support for the EU's Permanent Structured Cooperation (PESCO) by taking a leading role in a chemical, biological, radiological and nuclear defence project and participating in four further PESCO projects.

Nevertheless, Austria appears to be content with other member states (notably Germany and France) leading the debate. This matches Austria's general stance within the EU of leaving leadership on major foreign and security policy issues, with the notable exception of enlargement policy, to others and periodically referring to its constitutionally-enshrined neutrality. Much like Europe, Austria may find that it will have to re-evaluate its neutrality as the EU seeks to promote its capabilities and strategic autonomy amidst global power competition.

10 Markus Sulzbacher (2019), '5G only without Huawei: USA increase pressure on Vienna', *Der Standard*, May, https://www.derstandard.at/story/2000103096692/5g-nur-ohne-huawei-usa-erhoehen-druck-auf-wien.
11 Eder Kornfeld (2019), 'Huawei strengthens presence in Austria', *Wiener Zeitung*, September, https://www.wienerzeitung.at/nachrichten/wirtschaft/oesterreich/2029882-Huawei-staerkt-Praesenz-in-Oesterreich.html.
12 Sulzbacher (2019), *op. cit.*
13 Marlies Eder (2019), 'Europe, the new battlefield in tech competition', *Die Presse*, February, https://diepresse.com/home/techscience/5578420/Europa-das-neue-Schlachtfeld-im-TechWettkampf.

THE CZECH REPUBLIC'S PRAGMATIC CHINA POLICY: BALANCING BETWEEN THE EU AND THE US

THE CZECH REPUBLIC'S PRAGMATIC CHINA POLICY: BALANCING BETWEEN THE EU AND THE US

Rudolf Fürst
Institute of International Relations, Prague

Abstract

US-EU and US-China trade friction has raised significant concerns about the Czech Republic's economic prospects. The nature of the latter's China policy remains domestically contested due to an insufficient political consensus and to the limited economic benefits from China in terms of trade and investment. Issues such as values, human rights and the geopolitical views of the rising Asian country as a challenge to the global liberal order are a long-term obstacle for closer ties with China. The growing EU and US concern over Chinese influence in Central Europe is a new challenge for the pragmatic Czech policy on China. While the increasing Chinese presence in Central Europe has raised US security concerns, the EU remains the Czech Republic's top strategic priority in the political, economic and security agenda in its relations with China. The issue of EU strategic autonomy vis-à-vis both the US and China has so far been untouched in Czech debates.

China: still a marginal economic partner within the Czech Republic's EU-focused strategy

The Czech Republic is the typical case of a post-communist state that was emancipated from its status as a satellite of the Soviet Union and subsequently reoriented its foreign policy toward the West after 1989 –specifically seeking stronger ties with the European Union and NATO–. China has never been a clear priority of Czech foreign policy, even though the Czech business lobbies have constantly asserted the economy first mantra of the enormous Chinese market. The nature of Czech China policy remains contested in the domestic political scene due to China's limited economic benefits and human rights abuses, and the geopolitical views of the rising China as a challenge to the global liberal order. The growing US and EU concern over Chinese influence in Central Europe is a new issue for the pragmatic Czech China policy.

The EU is the top priority of Czech economic policy, as shown by recent official trade and investment statistics. The trade turnover with the EU in 2018 accounted for 74.7% of the Czech Republic's total trade, with exports at 84%, accounting for a surplus of €43,797 million. The Czech trade turnover with the US accounts for only 2.3% of the total trade (including a deficit of €389 million). China, meanwhile, accounted for 7.4% of the Czech Republic's total trade turnover, but only 1.3% of total Czech exports, with massive imports resulting in a trade deficit of €19,941 million with the PRC.[1] The economic relevance of the EU for Czech trade is thus essential, as the Republic's integration with the EU common market does not imply just a quantitative advantage (the cumulative value of Czech exports to the EU for the period 2004-17 was €1.264 billion),[2] but

1 Czech Ministry of Industry and Trade (2019), 'Czech Foreign Trade in 2018' (based on data from the Czech Statistical Office, https://www.mpo.cz/cz/zahranicni-obchod/statistiky-zahranicniho-obchodu/statisticky-prehled-zahranicniho-obchodu-cr-za-1-12-2018---zpresnene-udaje-k-28-2-2019--244360/.
2 'Jak 15 let v EU ovlivnilo zahraniční obchod ČR', *Euroskop*, 19/VIII/2019, https://www.euroskop.cz/ 9288/ 33054/ clanek/jak-15-let-v-eu-ovlivnilo-zahranicni-obchod-cr/.

also a sharing of common benefits in terms of the free exchange of goods, capital, services and human resources, and also benefits stemming from EU trade agreements with third countries. Regarding foreign direct investment (FDI), official statistics[3] indicate continuously low Chinese investments in the Czech Republic, even though the Czech government, and especially President Zeman, point to economic motives as the key pillar of the Czech bilateral and 17+1 agenda with Beijing. The stock of Chinese investment in the country, mainly related to the CEFC group, has reached approximately CZK23 billion (US$1 billion).[4] In 2017, investment flows from the EU-28, the US and China to Czechia amounted to respectively 88%, 0.8% and 0.5% of the total inbound FDI. These figures reveal the massive primacy of Europe over China and the US as far as the Czech economy is concerned.

The depth of the Czech Republic's economic engagement with the rest of Europe also implies a strong impact of European external trade matters. As there is an enormous Czech trade dependence on the EU and Germany in terms of exports, mainly in the car industry, trade frictions between the US and the EU, in particular the US import tariffs on European goods, have raised significant concerns about Czech economic prospects. In June the then International Monetary Fund (IMF) Director, Christine Lagarde, and the President of the European Central Bank (ECB), Mario Draghi, pointed to the structural vulnerabilities of Central and Eastern Europe, implicitly referring to the cases of Romania, Slovakia, the Czech Republic and Poland.[5]

The wind blew from the West

The current centre-left government, led by Prime Minister Andrej Babiš, promotes a less enthusiastic China policy than the previous Social-Democratic coalition cabinet (2014-17), but still the economic priority is the main driving force. The minor economic outcomes of the proactive bilateral and 17+1 agenda, on the other hand, provide an argument for questioning President Zeman and the pro-Chinese lobbies' efforts. If economic concerns are the top priority, the poor trade and investment record opens the way for a wave of conservative tough perception of China coming from the oppositional domestic camp. The security focused agenda with US and the cybersecurity issue became dominating domestic political and media debates and brought Czech policy makers closer to the US, without raising an issue of possible EU strategic autonomy towards both the PRC and US.

With the rising presence of China in CEE through the regional 17+1 format and bilateral agendas, US officials identified the Visegrád Four (V4) as a region in which China increased its influence. Wess Mitchell, the former US Assistant Secretary of State for European and Eurasian Affairs, regards CEE as a region where 'the geopolitical competition is sharply felt', and in which the US competes with Russia and China.[6] Similarly, Secretary of State Mike Pompeo, during his 2019 visit to Budapest and Warsaw, also mentioned strengthening US ties with this region, pointing to the rising Russian and Chinese influence in connection with cybersecurity and the Huawei

3 'FDI in the Czech Republic', *Czech National Bank*, 15/III/2019, https://www.cnb.cz/ analytics/ saw.dll?Portal&PortalPath=/shared/PZI_WEB/WEB_PZI.
4 'Čína: Obchodní a ekonomická spolupráce ČR s ČLR', *Bussinesinfo.cz*, https://www.businessinfo.cz /cs/clanky/cina-obchodni-a-ekonomicka-spoluprace-s-cr-19054.html.
5 Holly Ellyatt (2019), 'IMF's Lagarde and ECB's Draghi warn against troubling developments in trade war', *CNBC*, 12/VI/2019, https://www.cnbc.com/2019/06/12/lagarde-and-draghi-warn-about-trade-war.html.
6 'Winning the competition for influence in Central and Eastern Europe: US Assistant Secretary of State A. Wess Mitchell',19/X/2018, https://www.atlanticcouncil.org/news/transcripts/winning-the-competition-for-influence-in-central-and-eastern-europe-us-assistant-secretary-of-state-a-wess-mitchell.

issue.[7] The hypothesis of a Sino-Russian alliance that might challenge US interests in Europe has been mentioned also by *Foreign Affairs*.[8] In the Czech Republic, around 40 members of parliament suggested forming a commission to investigate the influence of authoritarian regimes on the Czech state and political institutions, having in mind especially Russia and China. The signatories of this proposal referred to the already published BIS (*Bezpečnostní informační služba*, the Czech Security Information Service) annual public reports in which Russian and Chinese espionage activities in the Czech Republic are repeatedly mentioned.[9]

Czech political and media narratives scarcely tackle the different perceptions of China in Europe, and focus mainly on domestic views.

When the China-EU-US triangle is discussed in Czech political and media debates, what is usually highlighted is the issue of President Trump's global policy shifts, and how US-Chinese and US-EU trade disputes might impact the Czech economy. The rising friction between the EU and China is observed in the Czech public discourse from the point of view of security and the domestic anxiety about cybersecurity risks that was stirred by the massive media concern on the Huawei issue. The rising fear of China in the Czech Republic[10] is connected to the perception of the position of the EU as weak and fragmented. Czech political and media narratives scarcely tackle the different perceptions of China in Europe, and focus mainly on domestic views that put the stress on the pro-Chinese role of President Zeman and his excessive support of Russia, which might shift the small Czech Republic away from the West and towards the East. The Czech Republic, together with the other CEE states and the Baltic states, tends to regard the US as the historically-proved long-time strategic safeguard against the Eastern threat, as Russian and Chinese influence is expected to undermine Europe's liberal democratic foundations.

Whereas the Czech Communist Party is traditionally a faithful group of China admirers, the other populists, such as the Eurosceptic part of the Czech conservatives (the parties SPD, Trikolora and Realisté), do not have much sympathy for China, which they see as a potential security threat and a dubious economic partner. Czech mainstream opinion on China in the media and political debate is dominated by Czech liberal and conservative think-tanks like the Cevro Institute, the Prague Security Studies Institute (PSSI), European Values, the Civic Institute, Sinopsis and the Aspen Institute, which together maintain Czech public opinion highly critical and outvoice pro-Russian and anti-US media outlets. Minor pro-Chinese media sources have so far failed to increase the PRC's positive image,[11] as China's self-promotion constantly proves its poor effectiveness.

The Czech Huawei alert and US appreciation

Despite its great distance from the Asia-Pacific geopolitical and security area the Czech cyber security alert attracted international attention. With almost the same timing as the Polish security alert against Chinese ICT technologies in November 2018, the Czech National Cyber Security

7 Valerie Hopkins (2019), 'US moves to pull Central and Eastern Europe out of China-Russian orbit', Financial Times, 11/II/2019, https://www.ft.com/content/52bc0cca-2e24-11e9-8744-e7016697f225.
8 Andrea Kendall-Taylor & David Shullman (2019), 'A Russian-Chinese partnership is a threat to US interests', *Foreign Affairs*, 14/V/2019, https://www.foreignaffairs.com/articles/china/2019-05-14/russian-chinese-partnership-threat-us-interests.
9 'Část poslanců chce vyšetřit vliv Ruska a Číny v Česku', *České Noviny,* 2/XI/2018, https:// www. Ceskenoviny.cz/zpravy/cast-poslancu-chce-vysetrit-vliv-autoritarskych-rezimu-v-cesku/1682675.
10 'Almost half (48 per cent) of Czech people believe China presents a significant threat', *Globsec Trends 2019*, https://www.globsec.org/wp-content/uploads/2017/05/GLOBSEC-Trends2019.pdf.
11 See 'Chinfluence Media Analysis', https://www.chinfluence.eu/media-analysis/.

The Czech public debate treats cybersecurity as a primarily domestic issue and largely overlooked the fact that the European states assumed a more divided approach towards Huawei than that requested by the US.

Agency (NÚKIB) issued a document warning of a security threat related to the Chinese IT brands Huawei and ZTE.[12] The next day Premier Babiš issued a ban on Huawei technologies from the Office of the Czech Government, the Foreign Ministry and the Ministry of Industry and Trade. Consequently, the Czech Premier called the NÚKIB for a more detailed analysis, as its document lacked specific guidelines and directives. The chaotic communication of the Czech ministries and security and regulatory agencies during the first days after the warning eventually evolved into a more systematic approach that involved setting up a timetable for the screening process and issuing guidelines for state institutions and critical information infrastructure, including updated rules for public information networks and telecommunication tenders.[13]

Subsequently, the Czech Foreign Minister, Tomáš Petříček, visited the US in February 2019 and Premier Babiš separately met with President Trump in March. During his visit to Washington, the Czech Premier received an invitation to visit the CIA headquarters at Langley, where the Director of BIS, Michal Koudelka, a member of the Czech delegation, met the CIA's Director Gina Haspel, and was awarded the prestigious George Tenet prize, which proved the CIA's high appreciation for the cooperative role of Czech intelligence and cybersecurity efforts.[14] Some Czech media commented that the Huawei case was a diplomatic tool that enhanced Czech-US relations, as it led to the quick arrangement of the visits of the Czech Foreign Minister and Prime Minister in Washington. The Czech Ambassador to the US, Hynek Kmoníček, also mentioned the cyber security case as one of the key events that opened the door to the Czech Premier's visit to Washington.[15] Even though US pressure on its European partners regarding Huawei was not unknown,[16] the Czech public debate treats cybersecurity as a primarily domestic issue and largely overlooked the fact that the European states assumed a more divided approach towards Huawei than that requested by the US.[17] After the high-level meeting in Washington, the Czech Republic's internationally active role was proved by calling the the Prague 5G Security Conference, which was co-sponsored by the Czech government and the Foreign Ministry. The conference attracted participants from 32 states and resulted in the Prague Proposals, which lay out a framework for dealing with cybersecurity issues related to 5G and questions such as that of the 'trustworthiness' of some vendors (without specifically naming Huawei).[18]

12 Document issued by NÚKIB, 17/XII/2018, https://nukib.cz/download/uredni-deska/ Varov%C3%A1n%C3%AD%20N%C3%9AKIB%202018-122-17.pdf.
13 'Núkib bych vytkl snad jen pozdní metodiku', uvedl Hamáček, *Týden.cz*, 3/II/2019, https://www.tyden.cz/rubriky/domaci/politika/nukib-bych-vytkl-snad-jen-pozdni-metodiku-uvedl-hamacek_512481_diskuze.html.
14 'Bez kamer a v přísném utajení. Šéf tajné služby dostal medaili CIA', *Lidovky.cz*, 4/IV/2019, https://www.lidovky.cz/domov/bez-kamer-a-v-prisnem-utajeni-sef-tajne-sluzby-dostal-medaili-cia.A190403_204109_ln_domov_vlh.
15 'Kmoníček: Českému premiérovi otevřely dveře do USA vydání Nikulina a varování před Huawei', *Czech Television*, 21/II/2019, https://ct24.ceskatelevize.cz/svet/2740340-kmonicek-cesky-premier-si-vyslouzil-pozvani-do-usa-vydanim-nikulina-a-varovanim-pred.
16 'In 5G race with China, US pushes allies to fight Huawei', *The New York Times*, 26/I/2019, https://www.nytimes.com/2019/01/26/us/politics/huawei-china-us-5g-technology.html.
17 Ellen Nakashima & Brian Fung (2019), 'US allies differ on difficulty of containing Huawei security threat', *The Washington Post*, 26/III/2019, https://www.washingtonpost.com/technology/2019/03/06/us-allies-are-skeptical-trump-administrations-huawei-argument/?utm_term=.4a80c03aff67.
18 'Závěrem mezinárodní konference o bezpečnosti sítí 5G je série doporučení', Government of the Czech Republic, *Vlada.cz*, 3/V/2019, https://www.vlada.cz/cz/media-centrum/aktualne/zaverem-mezinarodni-konference-o-bezpecnosti-siti-5g-je-serie-doporuceni--173420/.

Prague made efforts to follow the EU's common stance on China in investment screening cooperation and in the coordination and exchange of experiences in joint cybersecurity measures. The more assertive narratives about China in Brussels, and even more strongly in the US, resonate in the Czech Republic –in both the government coalition and the opposition–. However, assuaging western partners in the sense of sharing common values and economic policy does not derail pragmatic motives in specific cases. The decision to adopt Chinese-made or designed technology for domestic telephone and data operators, as well as for state information systems, depends on elaborate norms and guidelines that are still under study. President Zeman also gave a boost to Huawei against the allegations of the Czech intelligence circles and expressed his support for the Chinese communication technologies that were to be used in the Czech Republic during his meeting (in April 2019) with President Xi Jinping and Huawei representatives in Beijing.

The Huawei case drew a new dividing line between certain big-business lobbies and government policy. The PPF Group, which includes the telecommunications companies O2, CETIN and Telenor, had already singed a MoU with Huawei on a 5G mobile network build-up. Petr Kellner, the owner of PPF, was later called to appear for a hearing of the Foreign Committee of the Senate, the upper house of the Czech Parliament, to justify the future deal in a debate with lawmakers. There are also other government- and state-related institutions, such as the Czech Police, the Road and Motorway Directory (ŘSD), the Railway Directory, the Prague Public Transit Co., CEZ Group (ČEZ, Czech Energy), the Tax Office, etc, which had previously signed contracts with Huawei. As such, while the debate on the China threat dominates the mainstream media and public discussion –which are absorbed by the 'China influence' and China-related domestic moral and security narratives–, specific arrangements may follow pragmatic and economic criteria that are common elsewhere in Europe. This dichotomy shows the continuing trend in the Czech Republic's polarised political debate on China in the East-West geopolitical and security context. The Czech government and the Ministry of the Interior strongly support the coordination of Czech cybersecurity measures with those of the EU and the US.

‘AMERICA FIRST’: DENMARK'S STRATEGIC NAVIGATION IN THE ERA OF US-CHINESE RIVALRY

‘AMERICA FIRST’: DENMARK’S STRATEGIC NAVIGATION IN THE ERA OF US-CHINESE RIVALRY

Andreas Bøje Forsby
Nordic Institute of Asian Studies (on behalf of the Danish Institute for International Studies)

Abstract

US-Chinese great power rivalry already raises difficult questions for Denmark given its position as a close treaty ally to the US. Having worked hard over the past decade to cultivate strong and diversified relations with China, Denmark is now struggling with how to maintain its Comprehensive Strategic Partnership in the face of growing pressure from the Trump Administration. Recently, the Danish government has preempted Chinese investment plans in Greenland and effectively barred Huawei from being part of the 5G infrastructure in Denmark, while also adopting a somewhat more vocal line with respect to Chinese human-rights violations. Although distancing itself from specific Trump Administration policies and proposals, notably on climate change, free trade and the status of Greenland, the Danish government continues to see US global leadership as vital to Danish national interests. In finding a way to navigate the US-Chinese rivalry, Copenhagen is prevented from leaning too much towards Brussels given its national opt-outs from the EU.

Introduction

Like other small European states, Denmark has been served well by the rules-based multilateral order in the post-Cold War era. Denmark therefore has ‘a national interest’ in maintaining this order which has come ‘under pressure’, according to the official Danish foreign policy strategy.[1] The strategy specifically targets both China and the US as potential sources of international instability: ‘China is stepping forward on the international scene with ever greater self-confidence, economic strength and demands for more influence. The US is putting “America First”, raising doubts about its global leadership and its willingness to defend the world order that it was instrumental in building’.[2]

While the Danish government worries about the prospects of renewed great power assertiveness and rivalry, the foreign policy strategy leaves no doubt about Denmark’s overall strategic affiliation: ‘American global leadership is in Denmark’s national interest and crucial to rules-based international cooperation’.[3] Over the past decade, Danish governments have worked hard to expand and diversify Denmark’s Comprehensive Strategic Partnership agreement with China from 2008, boosting bilateral trade in the process.[4] However, when push comes to shove, the Danish government takes its cues from Washington in areas related to the growing US-China rivalry as witnessed, for instance, with respect to Huawei and Chinese investments in Greenland. Given a broad and longstanding consensus in the Danish parliament about Denmark’s strategic interests,

1 Danish Government (2018), *Foreign and Security Policy Strategy*, November, http://um.dk/en/news/newsdisplaypage/?newsid=01fc577b-6bf2-4fd7-8572-5af0534cf599.
2 *Ibid*.
3 *Ibid*
4 A.B. Forsby (2017), ‘Denmark’s relationship with China: an odd couple’s quest for bilateral harmony’, in Bjørnar Sverdrup-Thygeson *et al*., China and Nordic Diplomacy, Routledge, London.

The 'Comprehensive Strategic Partnership' term, which has officially guided Sino-Danish relations since 2008, would capture the nature of US-Danish relations more aptly.

the recent change of government (from center-right to center-left) is unlikely to have much effect on the overall foreign policy line.

The main pillars of bilateral relations

Far from being on an equal footing, Denmark's bilateral relationships with the world's two most powerful countries reflect, on the one hand, a long history of close relations with Washington and, on the other, a more recently conceived and instrumental partnership with Beijing. Ironically, the 'Comprehensive Strategic Partnership' term, which has officially guided Sino-Danish relations since 2008, would capture the nature of US-Danish relations more aptly.

In some respects, Denmark's bilateral relations with the US and China may appear relatively balanced. Economically, the US and China constitute respectively Denmark's largest and second-largest non-European trade partners (with total exports at around US$15 billion and US$9 billion in 2018).[5] Politically, Danish government officials have held approximately as many bilateral high-level (ie, ministerial) meetings with their Chinese as with their US counterparts over the past decade, and the Joint Work Programme (2017-20) for upgrading the Comprehensive Strategic Partnership encompass no less than 56 Memorandums of Understanding.[6] Moreover, US tourists in Denmark still outnumber those from China (786,000 and 235,000 hotel bookings respectively in 2018), but the average growth rate has been more than twice as high for Chinese tourists over the past decade.[7]

On closer inspection, however, the main pillars of US-Danish relations enjoy a far more solid grounding. Political meetings and consultation with the US are much more comprehensive, extending beyond bilateral ministerial meetings to encompass multilateral forums (eg, NATO and OSCE) and private diplomatic channels as well. Economically, not only have US foreign direct investment flows into Denmark long dwarfed those from China (over 10 times greater on average over the past five years),[8] but US high-tech companies like Google, Amazon and Microsoft dominate the increasingly digitalised Danish economy, while social media giants like Facebook, YouTube and Instagram have become standard platforms for organising the social life of Danes. US popular culture also plays a significant role in winning the hearts and minds of Danes, whereas Chinese cultural dissemination in Denmark is largely reduced to the activities of a few Confucius Institutes and the China Cultural Centre in Copenhagen. Furthermore, political values constitute a distinct, if mostly discreetly formulated, dividing line in official Danish-Chinese relations,[9] and coverage of China in the Danish media has long been overwhelmingly negative, as also to some extent reflected in perceptions of China among the Danish population (with 59% negative and 32% positive views in 2017).[10]

5 Data retrieved from https://www.statistikbanken.dk/10029.
6 Based on data inputs from the Danish Ministry of Foreign Affairs.
7 Data on tourists retrieved from https://statistikbanken.dk/statbank5a/default.asp?w=1920.
8 Data retrieved from https://www.statistikbanken.dk/DNDIA.
9 A.B. Forsby (2018), 'Discreet diplomacy: Denmark's pragmatic stance towards China', in Nicholas Rühlig *et al.*, *Political Values in Europe-China Relations*, ETNC Report, December.
10 Data retrieved from http://ec.europa.eu/commfrontoffice/publicopinion/index.cfm/Survey/getSurveyDetail/instruments/SPECIAL/surveyKy/2179.

Even more importantly, US-Danish relations rest on a very strong security pillar. A US treaty ally since the inauguration of NATO, Denmark has long been one of NATO's most activist frontline military combatants (in per capita terms), contributing to US-orchestrated interventions in Kosovo, Afghanistan, Iraq and Libya, mostly with extensive support in the Danish parliament.[11] Moreover, the US Thule air base in Greenland (part of the Danish Kingdom) holds significant strategic value for Washington in terms of power projection and monitoring capacity. As such, the Danish opt-out (since 1993) of EU policies on security and defence only adds further weight to Washington's position as the key provider of security guarantees –as well as military hardware and intelligence– to Denmark.

Recent trends in bilateral relations

The Danish government harbours concerns with respect to recent development trends in both the US and China. Unsurprisingly, the Trump Administration's reorientation of US foreign policy has been the main source of friction in US-Danish relations. The Danish ambassador to the US has labelled Donald Trump 'a political disruptor',[12] and former Prime Minister Lars Løkke Rasmussen from the Liberal Party was, during his time in power, quite outspoken in criticising the Trump Administration for its approach to climate change,[13] free trade[14] and the liberal international order more broadly.[15] Upon learning about Washington's withdrawal from the 'Iran nuclear deal', Rasmussen said that 'it's no use if we become so fearful as to degrade ourselves, turning ourselves into weak-willed marionettes of an American president'.[16] Mette Frederiksen, the new Social Democrat Prime Minister, had a September visit by Donald Trump to Copenhagen cancelled when she dismissed his idea of buying Greenland as 'absurd'.[17] At the same time, however, not only does the Danish government frequently emphasise its close relationship with Washington, notably in the security realm;[18] it has also been willing to accommodate specific strategic interests of the Trump Administration with respect to new burden-sharing targets within NATO and Washington's opposition to Nord Stream II.[19]

On the surface of Danish-Chinese relations, bilateral ties appear to be in an excellent state. An updated joint work programme, enhancing the Comprehensive Strategic Partnership (CPS) from 2008, was formally adopted in May 2017 when Løkke Rasmussen visited Xi Jinping in Beijing.[20] In

11 Rasmus Mariager & Anders Wivel (2019), 'Hvorfor gik Danmark i Krig', *Krigsudredningen*, Copenhagen.
12 Michael Bjerre (2018), 'Danmark's ambassadør i Washington: Trump sidder solidt i sadlen', *Berlingske*, 18/I/2018, https://www.berlingske.dk/internationalt/danmarks-ambassadoer-i-usa-trump-sidder-solidt-i-sadlen-og-staar-staerkere-politisk.
13 Elisabeth Thiis (2017), 'Enigt Folketing kritiserer USA's farvel til klimaaftalen', *TV2 Nyheder*, 2/VI/2017, http://nyheder.tv2.dk/politik/2017-06-02-enigt-folketing-kritiserer-trumps-farvel-til-klimaaftalen.
14 'Løkke kritiserer Trump for told på stål og aluminium', *Ritzau*, 20/III/2018, https://politiken.dk/indland/politik/art6390105/L%C3%B8kke-kritiserer-Trump-for-told-p%C3%A5-st%C3%A5l-og-aluminium.
15 Lise-Lotte Skjoldan (2017), 'Løkke kritiserer Trump: den frie verden risikerer at stå uden leder', *Altinget*, 5/VI/2017, https://www.altinget.dk/artikel/loekke-kritiserer-trump-den-frie-verden-risikerer-at-staa-uden-leder.
16 Morten Nielsen (2018), 'Løkke afviser Trump: Vi må ikke blive til dikkende lammehaler', TV2 Nyheder, 9/V/2018, http://nyheder.tv2.dk/politik/2018-05-09-loekke-afviser-trump-vi-maa-ikke-blive-til-dikkende-lammehaler.
17 Theis Lange Olsen (2019), 'Mette Frederiksen: Jeg har ikke behov for at gå ind i en ordkrig med Trump', *DR Nyheder*, 21/VIII/2019, https://www.dr.dk/nyheder/indland/mette-frederiksen-jeg-har-ikke-behov-gaa-ind-i-en-ordkrig-med-trump.
18 See, eg, Udenrigsministeriet (Danish Ministry of Foreign Affairs), 17/IX/2018, http://um.dk/da/Udenrigspolitik/udenrigspolitiske-nyheder/NewsDisplayPage/?newsID=BF7BD504-7FFD-4C66-B5EC-82B83AFFB681; and Udenrigsministeriet, 3/IV/2019, http://um.dk/da/Udenrigspolitik/udenrigspolitiske-nyheder/NewsDisplayPage/?newsID=456804C0-CAB3-4B31-B08E-DD7DEE3A50B4.
19 Jacob Svendsen (2019), 'Danmark fik ikke sin vilje', *Politiken*, 9/II/2019, https://politiken.dk/udland/art7031352/Nord-Stream-2-gasledningen-f%C3%A5r-gr%C3%B8nt-lys-fra-EU.
20 For a link to the joint work programme see https://www.thinkchina.ku.dk/library/politics/china-denmark-joint-work/.

Denmark has been leaning closer towards Brussels in economic matters and Washington in security-related questions.

early 2019 the Danish Ministry of Foreign Affairs published a white paper with several recommendations on how to expand economic relations with China.[21] And in April 2019 Mao Sun and Xing Er, two giant pandas, finally arrived in Copenhagen Zoo after years of preparation. Yet the inauguration of the new 'panda palace' was not attended by any Chinese high-level representatives, likely reflecting a recent cooling of bilateral relations.

The change of atmosphere was on full display in December 2018 during a remarkably China-critical debate in the Danish parliament titled 'The growing pressure from China'. Although the ensuing resolution, adopted by a large majority in the parliament, reaffirmed the CPS, it also unprecedentedly called upon the government to work together with Denmark's partners in handling the challenges posed by China's rise.[22] Moreover, in its most recent annual Risk Assessment, the Danish Defence Intelligence Service has significantly expanded its focus on China, specifically targeting China's presence in the Arctic, strategic cooperation with Russia, cyber activities and power projection capabilities.[23] Other indications of this perceptual shift include a somewhat more explicit Danish approach to Chinese human rights violations in Tibet and Xinjiang during the latest Universal Period Review session in the UN Human Rights Council[24] and the low-level Danish delegation (headed by a civil servant) at the second Belt and Road Forum in April 2019. Finally, an official investigatory commission –scrutinising several violations of the right to freedom of speech by the Danish authorities during Chinese President Hu Jintao's state visit in 2012– has seen its mandate renewed and broadened in July 2018,[25] partly as a result of continued negative media coverage of China's influence activities in Denmark.

Denmark navigating US-Chinese rivalry

In the past couple of years, Denmark has been leaning closer towards Brussels in economic matters and Washington in security-related questions even if Copenhagen prefers not to politicise its differences with Beijing or openly oppose Chinese interests. In the economic realm, Denmark has generally subscribed to Brussels' line in dealing with China's request for market economy status[26] and also supported the EU's more assertive agenda for establishing a level economic playing field with China, as articulated in a new set of government-sponsored recommendations on how to engage China economically.[27] Moreover, the Danish government has not only officially welcomed the new EU-level screening mechanism for FDI, but is currently also preparing the introduction of additional regulatory measures to protect critical infrastructure and other sensitive areas from foreign take-over –measures clearly directed at China without targeting the country explicitly–.[28] When it comes to the question of strategic dependence on the US tech giants, the

21 Udenrigsministeriet, 13/III/2019, https://um.dk/da/Udenrigspolitik/aktuelle-emner/ekspertpanel-for-globale-vaekstcentre---kina/.
22 Folketinget (Danish Parliament), 7/XII/2018, https://www.ft.dk/samling/20181/vedtagelse/v36/index.htm.
23 Danish Defence Intelligence Service (2018), 'Intelligence Risk Assessment 2018', November, https://fe-ddis.dk/SiteCollectionDocuments/FE/EfterretningsmaessigeRisikovurderinger/Risk_Assessment2018.pdf.
24 Udenrigsministeriet (2018), Permanent Mission of Demark to Geneva, 6/XI/2018, http://fngeneve.um.dk/en/News/newsdisplaypage/?newsID=12775EBB-0DB0-4B40-B1BC-316C75B49A17.
25 For a link to the Tibet Commission see https://tibetkommissionen.dk/.
26 Based on interviews with civil servants in the Danish Ministry of Foreign Affairs.
27 Udenrigsministeriet, 13/III/2019, https://um.dk/da/Udenrigspolitik/aktuelle-emner/ekspertpanel-for-globale-vaekstcentre---kina/.
28 Danish Government (2018), 'Foreign and Security Policy Strategy', November, http://um.dk/en/news/newsdisplaypage/?newsid=01fc577b-6bf2-4fd7-8572-5af0534cf599.

new Danish government is in favour of Brussels' plans to introduce a special digital tax on the tech companies, thereby reversing the line of the former Danish government, which seemed quite eager to engage the US tech industry as suggested, among other things, by the appointment of the first ever 'tech ambassador' posted in Silicon Valley.[29]

Turning to the burgeoning US-Chinese rivalry, Denmark has already several times found itself caught in the middle of conflicting great power interests. Since March 2015 when the Danish government hesitantly –and only after the UK, Germany and France had taken the lead– decided to join the Chinese-initiated Asian Infrastructure Investment Bank despite opposition from the Obama Administration, Denmark has faced three other strategic dilemmas. In each case, the Danish government appeared susceptible to US pressure when perceived strategic interests were at stake.

The first dilemma arose in 2016 when a Chinese consortium known as 'General Nice Group' appeared interested in buying an abandoned marine station in Grønnedal, Greenland. This prompted Løkke Rasmussen to pre-empt the prospective sale by securing support and funding in the parliament for reopening Grønnedal 'as a strategic and logistics hub', even if an official report on future Arctic missions from the Defence Ministry published in June 2016 did not mention Grønnedal at all.[30] According to well-placed sources, Rasmussen's intervention was triggered by Washington's security concerns about allowing China to obtain a strategic foothold in Greenland.[31]

A second strategic dilemma, much along the same lines, emerged in 2018 when the Danish government prevented a government-controlled Chinese consortium (China Communications Construction Company) from being involved in building new airport infrastructure in Greenland.[32] This time, Defence Secretary Jim Mattis clearly conveyed the message that the US did not approve of Chinese involvement in the airport project[33] –a message that was later transmitted by the Danish Prime Minister in parliament–. Despite vocal accusations from Greenlandic politicians about violating Greenland's self-governance system under the pretext of security concerns,[34] in September 2018 the Danish government revealed a new infrastructure funding plan for Greenland that would effectively grant Copenhagen a final say over the choice of external partners in the airport project.[35]

The third strategic dilemma also emerged in 2018 when the US government publicly started warning their partners and allies about relying on Huawei as a provider of 5G mobile infrastructure.

29 Udenrigsministeriet (no date), https://um.dk/en/news/newsdisplaypage/?newsid=60eaf005-9f87-46f8-922a-1cf20c5b527a.
30 Martin Breum (2016), 'Did Denmark's Prime Minister stop a Chinese firm…', *Arctic Today*, 23/XII/2016, https://www.arctictoday.com/did-denmarks-prime-minister-stop-a-chinese-firm-from-buying-an-abandoned-military-base-in-greenland/.
31 Erik Matzen (2017), 'Denmark spurned Chinese offer for Greenland base over security sources', *Reuters*, 6/IV/2017, https://www.reuters.com/article/us-denmark-china-greenland-base/denmark-spurned-chinese-offer-for-greenland-base-over-security-sources-idUSKBN1782EE.
32 Andreas Lindquist (2018), 'Efter kinesisk interesse: Regeringen overvejer finansiering af grønlandske lufthavne', *DR Nyheder*,13/VI/2018, https://www.dr.dk/nyheder/politik/efter-kinesisk-interesse-regeringen-overvejer-finansiering-af-gronlandske-lufthavne.
33 Ritzau (2018), 'USA advarer Claus Hjort om kinesisk entrepreneur på Grønland', *DR Nyheder,* 5/V/2018, https://www.dr.dk/nyheder/politik/usa-advarer-claus-hjort-om-kinesisk-entreprenor-pa-gronland.
34 Andreas Krog (2018), 'Hammond: Danmark er USA's nikkedukke i lufthavnssag', *Altinget*, 4/VI/2018, https://www.altinget.dk/arktis/artikel/hammond-danmark-er-usas-nikkedukke-i-lufthavnssag.
35 Jacob Grønholdt-Petersen (2018), 'Greenland picks Denmark as airport project partner over Beijing', *Reuters*, 10/IX/2018, https://www.reuters.com/article/us-china-silkroad-greenland/greenland-picks-denmark-as-airport-project-partner-over-beijing-idUSKCN1LQ2BX.

With Huawei already a major partner of TDC, the leading Danish operator of the existing 4G network, the Chinese tech giant seemed like an obvious choice for rolling out 5G. However, pressure built up on TDC in late 2018 as both the Danish Defence Minister[36] and head of the Danish Defence Intelligence Service[37] voiced their concerns in the Danish media about Huawei's close ties to the Chinese government, while Huawei responded by sending a reassuring letter to the Danish parliament.[38] Finally, in March 2019, TDC announced a new 5G partnership with Ericsson, and while Allison Kirkby, CEO of TDC, motivated the company's decision on commercial grounds, she also acknowledged that 'We're always in a continuous dialogue with the security services because we are running critical infrastructure'.[39]

36 Jakob Sorgenfri (2018), 'Claus Hjort Frederiksen: vi må ikke være naive over for Huaweis tråde til den kinesiske stat', *Politiken*, 11/XII/2018, https://politiken.dk/indland/art6912180/Vi-m%C3%A5-ikke-v%C3%A6re-naive-over-for-Huaweis-tr%C3%A5de-til-den-kinesiske-stat.
37 Jesper Kongsted (2018), 'Advarsler mod TDC's kinesiske partner får dansk efterretningstjeneste på banen', *Jyllandsposten*, 6/XII/2018, https://finans.dk/forside/ECE11053935/advarsler-mod-tdcs-kinesiske-partner-faar-dansk-efterretningstjeneste-paa-banen/?ctxref=ext.
38 Jakob Sorgenfri (2018), 'I kan stole på os', *Politiken*, 11/XII/2018, https://politiken.dk/indland/art6910479/Kinesisk-k%C3%A6mpe-sender-dette-brev-til-danske-politikere-i-fors%C3%B8g-p%C3%A5-at-d%C3%A6mpe-frygt.
39 Stephen Gadd (2018), 'Huawei edged out in favor of Ericsson for Danish 5G network', *CPH Post*, 19/III/2019, http://cphpost.dk/news/business/huawei-edged-out-in-favour-of-ericsson-for-danish-5g-network.html.

FINLAND'S RELATIONS WITH CHINA AND THE US

FINLAND'S RELATIONS WITH CHINA AND THE US

Bart Gaens & Jyrki Kallio
Finnish Institute of International Affairs

Abstract

Trade is a key factor in Finland's relations with both China and the US. The US occupies a more important position than China in terms of both Finnish exports and incoming investments, and Finland considers the US a vital partner in security and defence. This underlines the importance of tight political relations between Finland and the US, whereas Finland's political relations with China are subject to the promotion of economic relations. China is proactively promoting new forms of cooperation but does not seem to be exerting political influence in Finland. Conversely, the US seems to consider Finland as part of its sphere of influence. The Finnish government in turn regards transatlantic relations to be of the utmost importance.

Trade, tourism and investments are the foundation upon which Finland and China have built their most important political expression of mutual good.

Primary pillars of Finland's relations with China and the US

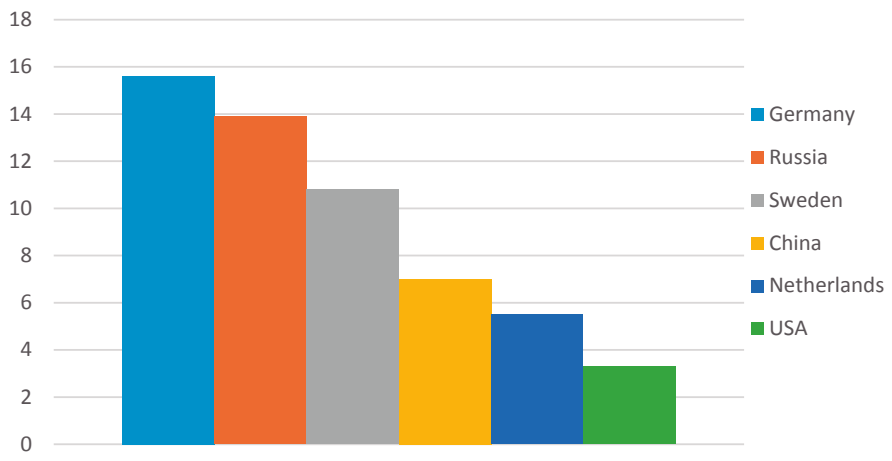
China: trade, investment and political relations

Finland's priorities in her relations with China are trade and, to a lesser degree, investments. Good political relations are regarded as a necessary tool for promoting these priorities.[1] From another perspective, trade, tourism and investments are the foundation upon which Finland and China have built their most important political expression of mutual good will, namely the Joint Declaration in 2017 that launched a cooperative partnership.

In 2018 China was is the second-largest recipient of Finnish exports outside the EU, the first being the US and the third Russia. China's share of Finland's exports in 2018 was 5.6% (the US 6.7% and Russia 5.1%). As for imports, China is the second-largest trading partner outside the EU (at 7.0%, with Russia at 14% and the US at 3.3%).[2]

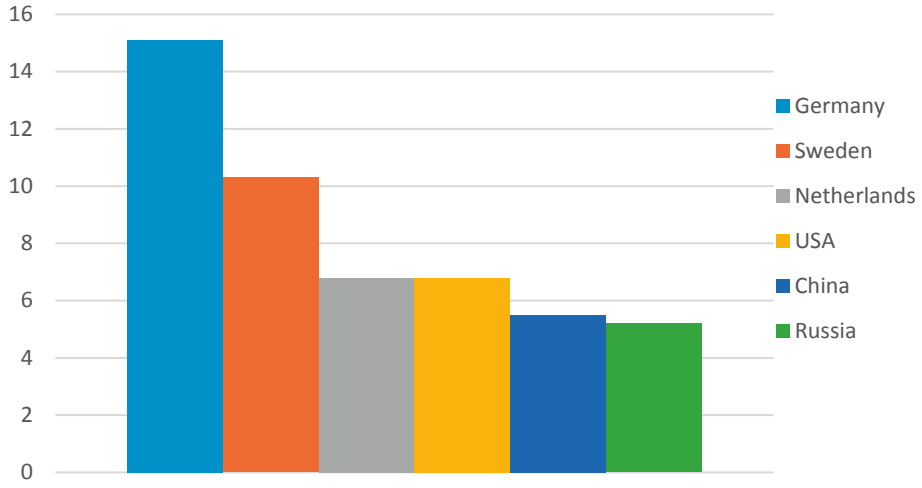
1 Ministry for Foreign Affairs (2019), *Discussion with an official at the Ministry for Foreign Affairs of Finland, wishing to remain anonymous*, May, on file with the authors.
2 Finnish Customs (2019), 'International trade 2018 – Pocket statistics', Statistical publications, 19/VI/2019, https://tulli.fi/en/article/-/asset_publisher/ulkomaankauppa-2018-taskutilasto.

Figure 1. Finland's main import partners, 2018[3]



Source: Finnish Customs, 2019.

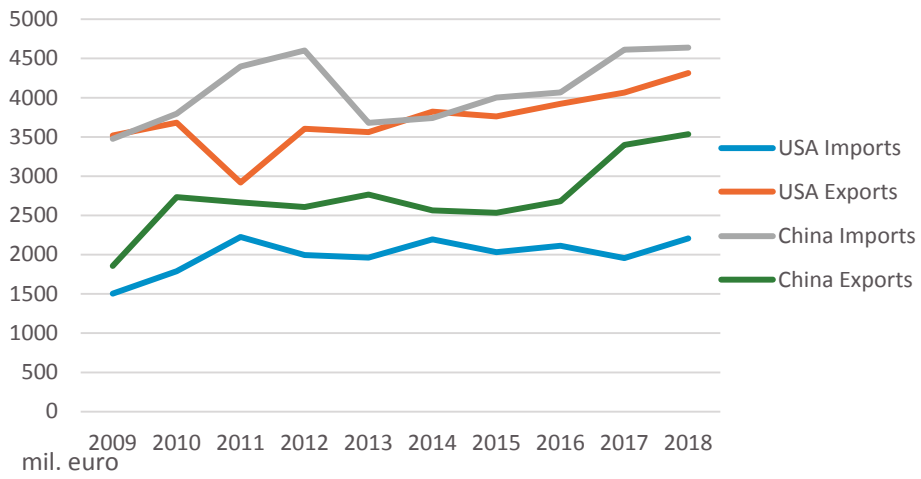
Figure 2. Finland's main export partners, 2018



Source: Finnish Customs, 2019.

3 All graphs are based on the statistics from Finnish Customs (2019), *op. cit.*

Figure 3. Finland's trade 2009-18



Source: Finnish Customs, 2019.

The inflow of Chinese tourists to Finland has been gradually increasing, having grown in 2018 by 6.3%, totalling 385,000. This makes China (including Hong Kong) the fifth-largest country of origin of tourists to Finland.[4] Chinese investments in Finland, however, remain negligible in comparison to Finnish investments in China. The total value of Finnish investments to China is estimated at over €11 billion.[5] According to a recent Merics report, the cumulative value of Chinese investments in Finland in 2000-18 was €7.3 billion, making Finland China's fifth most important investment destination in Europe just after the UK, Germany, France and Italy.[6] However, the figure is misleading as it includes the acquisition of Supercell (China's Tencent Holdings bought 84.3% of Supercell shares by acquiring all of Japanese Softbank's 72.2% stake) with a value of US$8.6 billion. Therefore, the amount of productive investments from China should rather be measured in the range of some hundreds of millions of euros.

To date, there are no projects associated with the Belt and Road Initiative (BRI) in Finland, a founding member of the Asian Investment Infrastructure Bank (AIIB). A new rail-link connection between Eastern Finland and China has been given a BRI label, but it is operated using the existing Trans-Siberian railway, hence this is rather a case of rebranding.

A private tunnel project linking Helsinki to the Estonian capital of Tallinn has recently gained notoriety due to its possible Chinese funding, and its status as a rival to an officially-approved project, FinEst Link Iniative, for a similar tunnel.[7] The private enterprise, run by Peter Vesterbacka

4 Visit Finland (2019), 'Suomen matkailu jatkuu ennätystasolla', 7/II/2019, http://www.visitfinland.fi/news/suomen-matkailu-jatkaa-ennatystasolla/.
5 Frederic Riviere (2018), 'Small Finland is big in trade with China', *Finnish Business Council Shanghai*, 25/XI/2018, https://fbcs.fi/news/small-finland-big-trade-china.
6 Thilo Hanemann, Mikko Huotari & Agatha Kratz (2019), 'Chinese FDI in Europe: 2018 trends and impact of new screening policies', *MERICS Papers on China*, MERICS and Rhodium Group, March, Berlin, https://www.merics.org/en/papers-on-china/chinese-fdi-in-europe-2018.
7 See www.finestlink.fi/en/.

–the former Director of Rovio and maker of the Angry Birds game– called FinEst Bay Area Development, received a funding pledge in March 2019 of €15 billion in financing from China's Touchstone Capital Partners, with links to the BRI Fund. FinEst Bay Area Development has declared that a memorandum of understanding has been signed, in order to provide for a third of the funding in private equity, which will give Touchstone a minority stake in the planned 100 km tunnel.[8] Vesterbacka has reiterated that the tunnel can be built by the end of 2024.

However, from the BRI viewpoint, the tunnel project would only make sense if it was linked with the so-called Arctic Corridor, a new rail connection to be built from Finnish Lapland to a (Norwegian) port on the Arctic Ocean. According to a recent feasibility study, building such a new railroad in Finnish Lapland has been declared unprofitable, and its sustainability in environmental terms is questioned.[9] The same study also pointed out that it would endanger the livelihood of the Sami, the indigenous people of Lapland. Most recently, however, the same private Finnish company run by Vesterbacka has signed a letter of intent on constructing the arctic railway from Rovaniemi in Finnish Lapland to the Norwegian port city of Kirkenes, in cooperation with a Norwegian development company. For now, neither the plan for the tunnel or the railway enjoy any governmental support from the countries involved. Without official approval, and without an Arctic connection, the tunnel project is not likely to materialise any time soon.

Political relations between Finland and China have remained stable with a focus on the economy for several decades. During President Xi Jinping's state visit to Finland in 2017, the two countries signed a Joint Declaration establishing and promoting a future-oriented new-type cooperative partnership. The Finnish approach towards the partnership was from the onset such that the bilateral partnership would be complementary to the EU-China Strategic Partnership.[10] The partnership was launched with a joint declaration instead of an agreement. The Joint Declaration stressed the EU's various partnerships as a foundation for the new bilateral partnership, thus firmly marking Finland out as an EU member state. It makes no mention of China's 'core interests', referring only to the mutual willingness of taking into account each other's key interests.

The establishment of the partnership was followed in 2019 by the Joint Action Plan for 2019-23, presenting the principal sectors of cooperation between the governments, business, other institutions and organisations, for which the cooperation partners in the two countries have formulated concrete objectives.

The US: trade and security

Finland's priorities in her relations with the US cover a wider range of topics than those with China, including not only trade but also research and development, security and defence cooperation.[11] As for trade, the US is Finland's most important export destination outside the EU, to the extent of €4.3 billion.[12] US FDI stock in Finland amounted to US$3.3 billion in 2017 and US$2.5 billion in

8 Finestbay Area Development (2019), 'Press release 8.3.2019', 8/III/2019, https://finestbayarea.online/media/79.
9 Ministry of Transport and Communications (2019), 'Final Report of the Joint Working Group Between Finland and Norway on the Arctic Railway', *Publications of the Ministry of Transport and Communications*, nr 4, http://julkaisut.valtioneuvosto.fi/handle/10024/161367.
10 Ministry for Foreign Affairs (2016), *Discussions with officials at the Ministry for Foreign Affairs of Finland, wishing to remain anonymous*, June, on file with the authors.
11 Ministry for Foreign Affairs (2019), *Discussion with an official at the Ministry for Foreign Affairs of Finland, wishing to remain anonymous*, May, on file with the authors.
12 Finnish Customs (2019), 'International Trade 2018 – Pocket Statistics', Statistical publications, 19/VI/2019, https://tulli.fi/en/article/-/asset_publisher/ulkomaankauppa-2018-taskutilasto.

2018,[13] making the US the largest investor in Finland excluding EU countries. In 2018 tourists from the US increased by 7.4% (289,000 visitors).[14] This makes the US the seventh-largest country of origin of tourists to Finland, with a smaller number of visitors than China.

Trade and investment with the US are therefore sizable, but it is obvious that regional as well as global security is a more important factor driving the Finland-US relationship forward. There is a strong understanding in Finland, as well as in Sweden and among NATO allies, that Russia's assertive and aggressive behaviour (as in the Ukraine) poses a challenge to the security order in the Finnish neighbourhood, and that a strong US link remains important for stability. Finland is also directly dependent on free and secure access to the global commons more broadly (air, maritime and cyber domains). With its open, export-driven economy, the US has been important to Finland in terms of safeguarding the rule-based international order, including the maritime commons.

The US President, Donald Trump, may have had a very negative impact on transatlantic relations in general, but actually Finland's cooperation with the US in the security area has strengthened. Finland and the US do not have any legally binding commitments for security and defence, and Finland is not a NATO member. However, Finland signed a Statement of Intent on bilateral defence cooperation with the US in October 2016 covering issues such as information exchange, joint training and exercises, and joint research and development in issues such as cyber security, arctic technologies and ship-building. Furthermore, Finland signed a trilateral statement of intent with the US and Sweden in May 2018, in order to intensify the trilateral defence dialogue, improve practical cooperation including joint military exercises and facilitate strategic communications and the sharing of information at all levels. In addition, Finland has taken part in military exercises under the NATO rubric (eg, Trident Juncture) and in exercises organised by the US (Red Flag in Alaska, in October 2018). Finland's currently operational fighter planes have been purchased from the US. The US has also strongly supported Finland's innovative initiative to establish the European Centre of Excellence for Countering Hybrid Threats. The centre is related neither to the EU or NATO, but aims to be a venue to promote defence against hybrid tools such as disinformation, election interference and so on.[15]

The Finnish government regards transatlantic relations as of fundamental importance to Finland, in view of the fact that the latter is intrinsically tied in with the international rules-based system.[16] Therefore, the increased interest and engagement of the US is generally viewed as a positive development in Finland because it creates strategic stability, facilitates the maintenance of the broader transatlantic link and enables the further strengthening of bilateral relations. For Finland, therefore, stronger transatlantic links do not conflict with a stronger European strategic autonomy and intensifying intra-European defence cooperation. On the contrary, 'the more the EU can do for defence, the better for NATO and the transatlantic link'.[17]

13 SelectUSA (2019), 'Foreign Direct Investment (FDI): Finland', *US Department of Commerce*, https://www.selectusa.gov/servlet/servlet.FileDownload?file=015t0000000LKBX.
14 Visit Finland (2019), 'Suomen matkailu jatkuu ennätystasolla', 7/II/2019, http://www.visitfinland.fi/news/suomen-matkailu-jatkaa-ennatystasolla/.
15 The authors would like to thank Research Fellow Ville Sinkkonen (FIIA) for his kind help in composing this paragraph.
16 Ministry for Foreign Affairs (2019), *Discussion with an official at the Ministry for Foreign Affairs of Finland, wishing to remain anonymous*, May, on file with the authors.
17 Jussi Niinistö (2018), 'Finland's defense minister: continuity and change in Finnish defense policy', *DefenseNews*, 9/XII/2018, https://www.defensenews.com/outlook/2018/12/10/finlands-defense-minister-continuity-and-change-in-finnish-defense-policy/.

Points of friction in Finland's relations with China and the US

China: investments, digital rivalry and 'China panic'

In terms of expected Chinese investments in Europe, the Finnish media have noted the EU-level discussion on the potential risks, but no vocal demands have been made against them. In general, promises of Chinese investment are welcomed by companies, but researchers have raised questions on both sustainability and environmental impact. Different Chinese investors have expressed an interest in as many as five forestry-related projects, but they would all compete over the same resources while there is also a major, solely Finnish-owned, competitor. It may be rather surprising that there has been little discussion about the probability that only a fraction of the Chinese-proposed investments currently on the table will materialise.

As an economy highly dependent on exports, Finland is a staunch supporter of free trade. China is similarly a beneficiary of globalisation. It therefore should come as no surprise that the expressed goals of Finland and China regarding global trade are in harmony. In practice, however, Finnish companies share the same concerns expressed across Europe about the uneven playing field in China as well as infringements on copyrights and industrial espionage. Finland shows no signs of diverting from the Commission-led common positions on China.

As for digital rivalry, publicly Huawei technology is welcomed. Major telecom-operators in Finland have stated that they have not found a security threat in Huawei equipment. Nevertheless, they do not solely use the equipment from Huawei or any other single technology provider.[18] Privately, a high-level source close to Nokia admitted that the commotion about Huawei arises more from economic and technological rivalries than a real concern for security threats. The Ministry of Traffic and Communications, responsible for deciding an official line on the issue, has not yet issued any statements.

In the government, and as a result also in municipalities and universities, for instance, China has suddenly begun to be seen as a threat rather than an opportunity. This 180-degree turn in opinion has occurred almost overnight, and reflects the common European discussion, but it is to some extent also due to US pressure (see below).

US: trade, climate change and Trump

The unilateral US stance on trade matters (steel and aluminium tariffs, foot-dragging at the WTO and the overall challenge to the liberal rules-based order) is definitely an issue of concern for an open, small and export-driven economy such as Finland's. Related to this, strong disagreement also exists on climate-change policy. Here perhaps the tip of the proverbial iceberg was the failure to agree on a Ministerial Declaration at the Arctic Council meeting (at Rovaniemi on 7 May 2019), due to US recalcitrance on climate-related commitments. This was a snub of sorts, given that Finland, and President Niinistö in particular, with his 'black coal' initiative, place a heavy emphasis on climate issues in the context of the Finnish Arctic Council chairmanship.

Interestingly, the Iran Deal comes up often when discussing sticking points between the US and Finland –but this must be seen in the broader context of the transatlantic relationship as another example of US unilateralism corroding trust–.

18 Tero Lehto (2019), 'Suomalaiset operaattorit: Huawein vakoilu-uhkaa ei havaittu – "Seuraamme aktiivisesti tilannetta"', *Kauppalehti*, 25/I/2019, https://www.kauppalehti.fi/uutiset/suomalaiset-operaattorit-huawein-vakoilu-uhkaa-ei-havaittu-seuraamme-aktiivisesti-tilannetta/71911e7c-b42a-4259-9ec3-7cfe2b996568.

Managing US-Chinese friction in Finland

In general, worries exist about the ramifications of the ongoing trade war, but there is little discussion about political problems. Despite a more negative public image of and negative publicity about China, Finland has maintained good working relations with China and clearly wants to benefit from the economic opportunities brought about by the country's rise –this much is clear from discussions with various Finnish stakeholders, both within and outside government bureaucracies–.

In the digital rivalry between China and the US, Finland is trying to play both sides. Nokia, for instance, has transformed itself into a global manufacturer of telecommunications equipment. It is trying to sell itself as a secure 5G provider as an alternative to Huawei in countries where the US has been trying to lobby against Huawei. At the same time, while being on the US side in its campaign against Huawei, Nokia is calling China its friend, and is heavily investing in building up its presence in China.[19] Furthermore, amidst the US-Chinese trade war, Nokia, as well as its Swedish competitor Ericsson, may profit, as they are two of the few viable alternatives to Huawei for Radio Access Network (RAN) products.

With regard to the recent US-Chinese tension, there has apparently been no pressure from either China or the US directed at the government.[20] However, US players are actively following and posing questions concerning the Finnish interest in new kinds of cooperation fields pushed by China.[21] Based on media sources and discussions with several interested parties, we have not found any examples of pressure being exerted by China. However, there are indications of active US lobbying against Huawei. Furthermore, according to a well-informed source, the US has also lobbied against deepening cooperation with China at a university in Finland.

In sum, while it is not clear if Finland has a conscious policy for managing US-Chinese tensions, it seems in practice to be aiming to find a middle ground. Finland is apparently trying not to complicate relations with China, and to keep the focus on the economy, while at the same time maintaining strong overall relations with the US.

Conclusions

Trade is a key factor in Finland's relations with both China and the US. Looking at statistics, the US occupies a more important position than China in terms of investments, but the role of China for the Finnish economy as a trading partner is extremely important. China is proactively promoting new forms of cooperation but does not seem to be exerting political influence in Finland, in contrast to the US, which seems to consider Finland part of its sphere of influence. On Finland's part, this sentiment is shared by the government, which considers the US a key partner in security and defence.

19 Stu Woo (2019), 'Nokia wants to topple Huawei, plans expansion in US and China markets', *Business Standard*, 18/IV/2019, https://www.business-standard.com/article/international/nokia-wants-to-topple-huawei-plans-expansion-in-us-and-china-markets-119041801241_1.html.
20 Ministry for Foreign Affairs (2019), *Discussion with an official at the Ministry for Foreign Affairs of Finland, wishing to remain anonymous*, May, on file with the authors.
21 Ministry for Foreign Affairs (2019), *Discussion with an official at the Ministry for Foreign Affairs of Finland, wishing to remain anonymous*, May, on file with the authors.

FRANCE AND US-CHINA TENSIONS: BOLSTERING MULTILATERALISM AND A MORE AUTONOMOUS EUROPE

FRANCE AND US-CHINA TENSIONS: BOLSTERING MULTILATERALISM AND A MORE AUTONOMOUS EUROPE

John Seaman
French Institute of International Relations[1]

Abstract

For France, the growing tension between the US and China is taking place in a context of shifting relations with the two countries. Both Washington and Beijing remain key partners for Paris, though increasingly on different issues. At the same time, relations have grown more tense and complex in light of the unilateralist turn of Donald Trump and China's growing ambitions on the global stage. France today remains undeniably tied to the US, but Paris is doing everything in its power to avoid having to make stark strategic choices and maintain its constructive relations with each of these two countries, hoping to salvage and reinvigorate what it can of a rules-based multilateral order. Meanwhile, France is seeking to strengthen its position through greater European cohesion and autonomy in the face of growing uncertainty.

France and the US: between rough seas and strong anchors

Relations between Washington and Paris have become increasingly strained since the arrival of Donald Trump in the White House. The initial strategy of France's President Emmanuel Macron to create a rapport with his US counterpart quickly unravelled, as Trump announced a departure from the Paris Agreement on combatting climate change, a unilateral end to military operations in Syria, a withdrawal from the nuclear agreement with Iran and a more assertive trade policy including new tariffs, export control measures and attacks on the WTO. In short, on issues of high importance to France, the unilateralist turn of the Trump Administration has severely undermined attempts by Paris to galvanise multilateralism as a means of responding to global challenges.

Beneath the tribulations linked to Trump's presidency, deeper fissures run through the US-France relationship. Growing concerns about US digital hegemony –which came to the fore during the Snowden revelations in 2013, and which continue with concerns of taxation of giants such as the GAFAM– will continue to weigh on transatlantic relations. Meanwhile, Washington's penchant for the extraterritorial application of its legislation –for instance with regards to sanctions on Iran– has particularly ruffled feathers in the French business community and is a regular source of frustration at the policy level. The case of the French power and transport group Alstom, which was acquired by General Electric following a US Department of Justice investigation that began in 2014, is still very much present in the minds of French policymakers.

At the strategic level, America's 're-balancing' towards the Pacific in order to respond to the strategic challenge posed by China –a tendency that began rather early in the Obama Administration– has structured the debate around the future level of US commitment to Europe and its periphery. This tendency has been exacerbated by Donald Trump's repeated questioning of NATO and chastising of allies. In an October 21 interview with *The Economist*, President Macron explicitly voiced his

1 The author would like to thank Lucrezia Poggetti, Justyna Szczudlik, Miguel Otero-Iglesias and Alice Ekman for their comments and suggestions, and Anne-Sophie Kontopoulos for her valuable research assistance.

concerns over frictions within the alliance, warning that 'what we are experiencing is the brain death of NATO'.[2] At the same time, the general fatigue perceived from parts of the US public and political establishment regarding multilateralism and America's overseas commitments raises the prospects of Washington's long-term disengagement from global affairs.

A solid base in bilateral relations remains

In spite of the rising friction, US and French interests still converge on fundamental economic, strategic and political areas. American businesses are active investors in France, making the US the number one source of FDI in the country outside the EU –with a stock of almost €118 billion in 2017, or 18.6% of all FDI stock in the country (versus €10 billion or 1.6% of total FDI stock from China).[3] Although the Trump Administration has ramped up the use of tariffs on European goods based on 'national security' grounds, among other measures, the US market remains a known and trusted entity for French businesses and trade with the US remains vibrant. France even enjoys a slight trade surplus, and the US accounts for roughly 7% of France's trade portfolio (roughly equal with China, though France runs a deficit of more than €29 billion with the latter).[4] Moreover, the stock of French investment in the US is roughly 16% of total French overseas investment, at €207 billion (versus €21 in China).

At the military level, France's reintegration into the NATO command structure in 2009 marked a turning point in defence cooperation with Washington. Cooperation at the operational level has intensified over the last decade and Paris has often looked to the so-called P3 (US-UK-France) as a key pillar of France's defence policy. While growing friction with Washington and the impending Brexit have certainly complicated this relationship, giving rise to calls for the deepening of Franco-German cooperation, France continues to find a convergence of views and a strong willingness for cooperation on defence and security issues with its Anglo-American partners, due in large part to common threat assessments and strategic outlooks. Finally, political and diplomatic relations between Paris and Washington remain steeped in a fundamental convergence of interests on the defence of democratic political systems and values.

France and China: towards a 'less naïve' approach

The rise in friction with Washington does not translate into a warming towards Beijing, as France is increasingly wary of China's economic, political and institutional ambitions beyond its borders. Indeed, President Macron has underlined the growing concern in France around rising Chinese 'hegemony' within the international system.[5] The rapid modernisation and expansion of China's military is a cause for concern for France in relation to its overseas territories in the South Pacific and the Indian Ocean, but also much closer to continental Europe. At the macro level, the Belt and Road has also come to represent how China seeks to re-tool globalization and position itself at the centre of a new international order.[6]

In addition to, or perhaps underlying, the wariness around China's global strategy, are concerns over domestic shifts within China and how these impact China's international posture and

2 'Emmanuel Macron in his own words', *The Economist*, 7/XI/2019, https://www.economist.com/.
3 Banque de France, https://www.banque-france.fr/ (last access 10/X/2019).
4 French Customs agency, http://lekiosque.finances.gouv.fr/ (last access 10/X/2019).
5 See, for instance, Emmanuel Macron, *Discours du Président de la République à la conférence des Ambassadeurs*, 27/VIII/2018, https://www.elysee.fr/.
6 Alice Ekman *et al*. (2019), 'China's Belt & Road and the world: competing forms of globalization', *Etudes de l'Ifri*, April, https://www.ifri.org/.

relations with Europe and France. Concerns have risen sharply over the consolidation of political leadership, the abolition of presidential term limits and the strengthening role of the Chinese Communist Party (CCP) in politics, the economy and society more broadly, in addition to the hardening of (often anti-Western) ideology and a backsliding on Human Rights.[7] The use of technology as a tool of political and social control is also problematic, particularly at a time when new technological advances are likely to reshape state-society relations across the globe. At the economic level, frustrations remain over forestalled economic reforms in China and the central role that the state and state-owned enterprises continue to play in the Chinese economy, coupled with the growing role played by the CCP in economic affairs. All these factors have only served to reinforce a clear trust deficit in the relationship.

Balancing firmness and openness

French policy towards China has evolved in light of these concerns. Until recently the French approach sought primarily to 'accompany' China's rise in hopes of pulling Beijing in a direction more in line with French interests, particularly with regards to upholding established international rules and norms. Paris has now moved toward a different, 'less naïve', approach that seeks to join forces with the EU and European member states to establish a new rapport de force with China. On the economic front, this translates into a firmer stance on key issues such as market access, a level playing-field and reciprocity, as well as a more 'clear-eyed' view of Chinese investments in France and Europe, particularly in strategic sectors, including high-tech industries. It also means a more forward-leaning stance on upholding pillars of a rules-based multilateral order, including on Human Rights –France voted in the UN Human Rights Council in 2019 to condemn Chinese practices in Xinjiang– and the Freedom of Navigation, particularly in the South China Sea or the Taiwan Strait.[8] To date, France has also refused to sign a Memorandum of Understanding on China's Belt & Road, opting instead to engage with China on specific projects and 'third party cooperation' in an effort to steer Chinese partners towards upholding higher standards in areas such as credit financing and environmental and labour practices. At the strategy level, France has also sought to contribute its own interpretation to the emerging 'Indo-Pacific' concept[9] –which has emerged in recent years to counterbalance China's growing influence in the area.

Yet despite the relative shift in perceptions, France has sought to maintain a constructive, though more level-headed approach to China. Paris remains keenly aware that effective responses to a broad range of key global issues (including climate change, biodiversity, weapons proliferation, cyber security, etc) cannot be achieved without active Chinese participation. The French approach has been to call for more robust multilateralism in responding to global challenges, while exploring deeper cooperation with China to this effect. For instance, in addition to emphasising China's role in combatting climate change, Paris seeks to work more proactively with Beijing on tackling challenges to biodiversity, as China plays host to the COP15 on biodiversity in the fall of 2020. To underline his willingness to engage with rather than isolate China, President Macron pledged to visit China once a year, with his second visit taking place in November 2019. At the same time, his presidency has also sought to better coordinate a common approach to China within Europe, as witnessed by his invitation to German Chancellor Merkel and Commission President Junker to meet President Xi during his visit to France in March 2019. Macron's state

7 The disappearance and later dubious prosecution of the former Interpol chief Meng Hongwei on charges of corruption had a direct impact on France. Meng's wife was granted asylum in France in May 2019 and an investigation is underway over alleged attempts by the Chinese authorities to kidnap her –an affair that has led China to cut off police cooperation–.

8 Tensions were particularly high in April 2019 when China accused France of 'illegally entering Chinese waters' after the Vendémiaire, a French naval vessel, sailed through the Taiwan Strait.

9 'French Strategy in the Indo-Pacific: "For an Inclusive Indo-Pacific"', French Ministry of European and Foreign Affairs, 7/VIII/2019, https://www.diplomatie.gouv.fr/; and Directorate General of International Relations and Strategy (DGRIS) (2019), *France and Security in the Indo-Pacific*, French Ministry of Defence, May, https://www.defense.gouv.fr/.

The nature of economic competition emanating from China have given way to calls from within the current French government to create 'European champions'.

visit to China in November 2019 also included joint meetings with European trade officials, as well as representatives from the German government and businesses.[10] On its side, the Chinese government still mentions the existence of a 'US-China-Europe' strategic triangle and calls for a rapprochement between China and Europe at a time of US-China tensions. But these calls have not been followed by any concrete measures. Indeed, wide gaps still remain between Paris and Beijing on fundamental issues such as the definition of multilateralism, free trade, and most of all on Human Rights.[11]

Navigating US-China friction: strengthening Europe and rules-based multilateralism

In a broad sense France has sought to avoid taking clear sides when the two powers go head to head. The difficulty ultimately lies in identifying policy decisions as being driven by independent assessments of national interest rather than bending to the will of the US or China. More than ever, the perceived need to maintain an 'independent' French foreign policy is very much alive. The national debate is now expanding to technological independence (how to avoid over-reliance on US or Chinese technologies), infrastructure independence (how to offer an alternative infrastructure development plan to China's), and other fields –with a growing political willingness under the Macron presidency to develop this approach at the European level.

5G and European industrial policy

The question of the digital economy and 5G technology illustrates how France is trying to walk a fine line between defending its own interests and not being drawn into geopolitical competition. As with many countries in Europe, France has been under diplomatic pressure from the US to limit Chinese presence in high-tech sectors, particularly the participation of Huawei in the country's impending 5G rollout. President Macron has said that the Trump Administration's confrontational approach to China is unhelpful and unnecessary. At the same time, France has moved to improve oversight over the activities of foreign firms, including Chinese and US, in high tech sectors. On 1 January 2019 France expanded the scope of its foreign investment screening mechanism to include digital fields such as artificial intelligence, semiconductors or cybersecurity. It has also developed legislation that requires telecoms operators to seek approval from the Prime Minister's office before contracting with foreign vendors (notably, though not exclusively nor explicitly Huawei) to build 5G network infrastructure.

Technological dependence on the US and more generally the nature of economic competition emanating from China have given way to calls from within the current French government to create 'European champions'. The French government was vocally in favour of merging of Alstom and Siemens in the railway sector, for instance, which was ultimately struck down by the European Commission but has fuelled calls for a re-thinking of competition policy in Europe. France has also joined with Germany in pushing for an 'Airbus of batteries' a joint initiative to remain competitive in the production of electric batteries.

10 'Les enjeux de la visite d'Etat du Président Emmanuel Macron à Pékin et à Shanghai', Elysée, 2/XI/2019, https://www.elysee.fr/.
11 Alice Ekman (2017), 'China and the 'Definition Gap': shaping global governance in words', The Asan Forum, November, http://www.theasanforum.org/.

European strategic autonomy and an inclusive Indo-Pacific strategy

US-China tensions have also had an impact on France's strategic posture. As the US increasingly draws its attention towards Asia and away from Europe and its periphery, France has pushed a narrative of greater strategic autonomy for Europe in a broad sense and a reinvigoration of the concept of an *Europe de la defense* in particular. While this has generated concerns across the continent that France is pursuing a Gaullist agenda, French officials and defence experts are quick to clarify that greater European autonomy is not to the detriment of NATO.[12] In effect, the push for European strategic autonomy is not an effort to cast Washington aside, but one that is aimed at providing Europe with a greater degree of autonomy to defend its regional interests, particularly in a context of US disengagement.

Beyond Europe, while deepening its engagement with the US, India, Japan and Australia on the Indo-Pacific concept, France has sought to formulate its own vision for the Indo-Pacific based on the principle of inclusiveness. While the concept has emerged in light of concerns over China's global presence, France has sought to evade an approach that would directly isolate or antagonise China –avoiding antagonistic, multi-party defence cooperation structures (eg QUAD), for instance, and including elements such as non-traditional security and environmental protection wherein China is a necessary partner.

In defence of rules-based multilateralism

One key way in which France has sought to navigate great power politics is by underlining the need for a rules-based international order built on a true multilateral consensus. France has actively sought to advance a more visible role for Europe in the defence of a rules-based order in Asia, through joint patrols in the defence of the Freedom of Navigation in the South China Sea, for instance. It has also moved to reinvigorate traditional forums such as the G7 (which it hosted in Biarritz in August 2019) and the G20, as well as the launching of a new set of flexible multilateral initiatives (Alliance for Multilateralism, Paris Peace Forum, G5 Sahel meetings, Paris Call for Trust and Security in Cyberspace, Paris Club and the Forum on Sustainable Debt for Sustainable Growth). Considering Washington's current politics, many of these latter initiatives have taken place independently of the US. At the same time, whereas China has trumpeted the merits of international cooperation and attempted to label itself as the champion of multilateralism, particularly in light of Washington's unilateral shift, French officials often lament China's practices as resembling a China-centred 'multi-bilateralism' rather than a truly consensus-driven approach.

12 Corentin Brustlein (Ed.) (2019), 'Mutual reinforcement: CSDP and NATO in the face of rising challenges', *Focus stratégique*, nr 93, October, https://www.ifri.org/.

GERMANY:
NO PIVOT TO CHINA

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Jan Weidenfeld
Mercator Institute for China Studies

Abstract

Germany's China policy has undergone a major overhaul in recent years: a growing number of German government officials have come to see China as a 'systemic competitor' and even as a 'systemic rival'. Beijing's attempts to capitalise on the difficult relationship between Berlin and Washington under US President Donald Trump have therefore largely fallen flat. In fact, the general trajectory of Germany's China policy lends itself to greater alignment with the US, with the two sides sharing similar assessments of the implications of China's fundamental non-convergence with the West. However, critical differences in approach prevail, with the US Administration showing little interest in cooperating with Europe on tackling the problematic aspects of Chinese domestic and foreign policies and the German business community doubling down on the Chinese market rather than decoupling like many US peers. Given the challenging relationship with both China and the US, Germany's China policy has lately revolved around a stronger 'European reflex'. Hence, the German government has pledged to reinforce efforts to support a greater alignment of the different EU member state positions on China.

If it were down to public opinion figures only, Germany would appear closer to China and more distant to the US than ever before in post-Cold War history. A representative survey conducted by Civey in February 2019[1] suggests that almost half of Germany's citizens (42.3%) consider Beijing to be a better partner to Berlin than Washington. Conversely, only less than one out of every four citizens (23.1%) believe that the US is a more reliable partner, with 34.6% of survey respondents being undecided. Only around 7% of Germans believe that Europe and the US should work more closely to counter growing Chinese assertiveness globally.

While the results of the Civey poll created quite a stir in the German media, they seem to be much more a product of unease about Washington politics than of any deep-seated sympathy for China and its political and economic system. Overall, knowledge of China remains relatively low in Germany, even though China has gained much more coverage in the German media and hence public attention in recent years. For example, over the course of 2019, Germany's biggest tabloid as well as its major public-opinion shaper and seismograph of public sentiment, *Bild*, has begun to regularly publish high-profile op-eds critical of developments in China, touching on issues such as mass surveillance in Xinjiang,[2] Beijing's approach to the protests in Hong Kong,[3] China's debt-trap diplomacy in Africa[4] and Beijing's political influencing activities in Europe.[5]

It remains to be seen whether this critical coverage is indicative (or formative) of a wider shift in German public opinion. However, even in the absence of a widespread critical public engagement with China, Germany's official policy line towards China has already become more sober-minded

1 Atlantik-Brücke (2019), 'Vertrauen in der Krise: Landkarten geopolitischer Chancen und Risiken', *Atlantik-Brücke Argumente 05*, Berlin, https://www.atlantik-bruecke.org/wp-content/uploads/AtlantikBrueckeUmfrage2019.pdf.
2 'Warum baut VW Autos, wo Menschen gequält werden?', *Bild*, 18/IV/2019, https://www.bild.de/geld/wirtschaft/politik-ausland/warum-hat-volkswagen-ein-werk-in-chinas-gefaengnis-provinz-61310668.bild.html.
3 Paul Ronzheimer (2019), 'Kämpft für die Freiheit!', *Bild*, 15/VIII/2019, https://www.bild.de/politik/kolumnen/kolumne/kommentar-zu-hongkong-wovor-haben-deutsche-politiker-angst-63988092.bild.html.
4 Nils Kottmann (2018), 'So skrupellos steckt China sich Afrika in die Tasche', *Bild*, 7/XI/2018, https://www.bild.de/politik/ausland/politik-ausland/geld-macht-china-die-skrupellosen-milliarden-deals-in-afrika-57986422.bild.html.
5 Emma Meier (2019), 'Darum müssen wir Angst vor China haben', *Bild*, 26/III/2019, https://www.bild.de/politik/ausland/politik-ausland/die-neue-weltmacht-darum-muessen-wir-angst-vor-china-haben-60886850.bild.html.

and harder-edged over the past three to five years. Significantly, this policy shift has occurred *despite* changes in the US-China relationship and related attempts by the US Administration to convince Berlin of a more confrontational policy towards China and not *because* of it. In fact, if anything, from a German point of view Washington's global politics have been detrimental to a more united US-European assessment of and response to China.

Germany's relationship with the US is not what it used to be…

The growing scepticism with which Germans see the transatlantic relationship emerged long before the arrival of President Donald Trump in the White House. Germany's decision not to take part in the 2003 US-led military campaign in Iraq was only the beginning of a growing estrangement.[6] The former President Barack Obama's 'pivot to Asia' and his approach of 'leading from behind' during the 2011 NATO Libya campaign[7] were understood in Germany as indications that the US would show significantly less interest in Europe in the future, requiring greater European strategic autonomy, i.e. the willingness to define and pursue Europe's own interest and the ability to do so on its own.[8] The Snowden revelations about the US National Security Agency (NSA) and its international partners' global surveillance programme have greatly added to mistrust of the US in German government quarters.[9] For example, leading members of the German parliament explicitly linked the debate on the role of Huawei in the rollout of 5G to past US actions in the realm of digital surveillance, suggesting that the US is not necessarily a more trustworthy partner when it comes to foundational digital technologies.[10]

However, Germany's relationship with the US has taken some particularly hard punches lately. The US President's threats to impose higher tariffs on German and other European car manufactures and the US critique of Germany's support for North Stream 2 were doubtlessly the most controversial items on the bilateral agenda. On matters of global governance, German-US relations were characterised by strong disagreements about the future of global trade governance and the US's withdrawal from the INF treaty, relations with Iran and the Paris accords on fighting climate change. The relationship has also suffered from wider atmospheric challenges, with the US Administration being perceived as overly critical of Germany's track record as a bilateral trading partner and its insufficient financial contribution to NATO. Moreover, Trump's choice of US Ambassador to Germany, Richard Grenell, repeatedly raised eyebrows in Berlin for interfering in Germany's domestic affairs in an 'unwarranted' manner,[11] suggesting, for example, that German companies should immediately wind down all business operations in Iran[12] or pledging support to populist political movements in Europe.[13]

6 Daniela Schwarzer (2016), 'Why Obama couldn't rescue US-German relations', *Foreign Policy*, 22/IV/2016, https://foreignpolicy.com/2016/04/22/why-obama-couldnt-rescue-u-s-german-relations/.
7 Rowena Mason (2016), 'David Cameron was distracted during Libya crisis, says Barack Obama', *The Guardian*, 11/III/2016, https://www.theguardian.com/us-news/2016/mar/10/david-cameron-distracted-libya-conflict-barack-obama.
8 Bjønar Sverdup-Thygeson, Marc Lanteigne & Ulf Sverdrup (2016), '"For every action…': the American pivot to Asia and fragmented European responses', *Brookings Institution*, January, https://www.brookings.edu/wp-content/uploads/2016/07/The-American-pivot-to-Asia-and-fragmented-European-responses-2.pdf.
9 James Kirchick (2017), "Die neue Distanz der Angela Merkel", *Frankfurter Allgemeine Zeitung*, 31/V/2017, https://www.faz.net/aktuell/angela-merkel-geht-auf-distanz-zu-den-usa-15040464.html.
10 Deutscher Bundestag, "Experten gegen Auschluss von Anbietern beim Mobilfunkstandard 5G", 2019, https://www.bundestag.de/dokumente/textarchiv/2019/kw11-pa-auswaertiges-5g-627186.
11 Malte Lehming (2019), 'Richard Grenell verstärkt die Abwehrreflexe', *Der Tagesspiegel*, 9/VIII/2019, https://www.tagesspiegel.de/politik/us-botschafter-in-berlin-richard-grenell-verstaerkt-die-abwehrreflexe/24888048.html.
12 'Iran-Anweisung an deutsche Firmen: Scharfe Kritik an neuem US-Botschafter in Berlin', *Der Spiegel*, 9/V/2018, https://www.spiegel.de/wirtschaft/unternehmen/iran-tweet-von-richard-grenell-wolfgang-ischinger-mahnt-us-botschafter-a-1206982.html.
13 'US-Botschafter in Deutschland irritiert mit Essen für Kurz', *Die Welt*, 5/VI/2019, https://www.welt.de/politik/deutschland/article176990276/Richard-Grenell-US-Botschafter-in-Deutschland-irritiert-mit-Essen-fuer-Sebastian-Kurz.html.

In terms of influencing Germany's relationship with China, German government officials have perceived the US government and its US embassy in Berlin as clumsy at times. For example, the US public diplomacy campaign in relation to Huawei's role in the rollout of 5G in Germany was perceived rather negatively as an attempt to interfere in German national security.[14] Privately, senior policy analysts even compared the forceful 'injection' of US think-tank representatives into the German public debate on Huawei[15] to Beijing's tactics of deploying Chinese state-directed think-tank representatives to communicate the Chinese Communist Party's line abroad.

… but China fails to benefit

Since the arrival of China's President Xi Jinping in 2012, Germany's China policy has undergone a major overhaul. China is increasingly seen and dealt with as a 'systemic competitor' across German government departments. Leading German business representatives have encouraged Berlin and Brussels 'to do their homework' and to make Europe more competitive in the face of Chinese state-led industrial competition. The BDI China position paper of January 2019[16] is particularly remarkable in that it goes far beyond what would be expected from a business association's assessment of China, also venturing into normative assumptions and assessments. While the tone of the BDI, one of Germany's largest business associations, has become more cautious again recently, the German government continues to share the assessment and policy priorities of the European Commission's strategic outlook on China of March 2019, which even brands China a 'systemic rival'.[17]

Chinese attempts to instrumentalise the difficult relationship between Berlin and Washington under Trump for its own agenda have by and large failed. Like the US over Huawei, Beijing has unleashed a public diplomacy campaign in Germany since Trump's election to pull Berlin on China´s side in the trade dispute with the US. This has included a major charm offensive at the government level, several think-tank exchanges aimed at discussing a more 'autonomous' European global policy, and public interventions by the Chinese embassy in Berlin criticising the US. Arguably, the most consequential impact was visible among the business community, with major German corporates like Allianz, BASF or BMW getting very favourable investment and ownership conditions in China[18] or Siemens winning a sizeable number of BRI contracts.[19] On the back of these and other deals, major German corporates have not only doubled down on the Chinese market[20] but some have also compared China's allegedly open global economic policy

14 'Merkel weist Kritik von US-Botschafter am 5G-Ausbau zurück', *Die Zeit*, 12/III/2019, https://www.zeit.de/politik/ausland/2019-03/huawei-5g-ausbau-angela-merkel-usa-warnung-geheimdienst-sicherheitsbedenken.
15 Winand von Petersdorff (2019), 'China kann man nicht trauen', *Frankfurter Allgemeine Zeitung*, 10/III/2019, https://www.faz.net/aktuell/wirtschaft/diginomics/huawei-us-experten-waren-deutschland-vor-gefahren-16081913.html.
16 BDI (2019), 'China – Partner and systemic competitor: how do we deal with China's state-controlled economy?', Strategic position Paper, January, https://english.bdi.eu/article/news/milestone-in-the-china-debate-bdi-presents-strategic-position-paper.
17 European Commission (2019), 'EU-China: a strategic outlook', European Commission and HR/VP contribution to the European Council, 12/III/2019, Brussels, https://ec.europa.eu/commission/sites/beta-political/files/communication-eu-china-a-strategic-outlook.pdf.
18 'Li Keqiang wirbt – BASF kommt', *Frankfurter Allgemeine Zeitung*, 9/VII/2019, https://www.faz.net/aktuell/wirtschaft/li-keqiang-wirbt-fuer-china-basf-und-bmw-kommen-15682578.html.
19 Siemens (2018), 'Siemens embraces Belt and Road Initiative', 6/VI/2018, https://press.siemens.com/global/en/pressrelease/siemens-embraces-belt-and-road-initiative.
20 Florian Gehm (2019), 'Blanke Naivität macht Deutschland für China zur leichten Beute', *Die Welt*, 30/III/2019, https://www.welt.de/wirtschaft/article191060835/Seidenstrassen-Projekt-Blanke-Naivitaet-macht-Deutschland-fuer-China-zur-leichten-Beute.html.

favourably to the allegedly protectionist policies of the US.[21] Nevertheless, concerns about China's failure to fundamentally open its economy to foreign competition, the revival of a more visible role and influence of China Communist Party cells in companies or the way the Social Credit System will affect foreign corporates are privately shared by many German CEOs.

The negative trends in the way the US is perceived are easily eclipsed by the reassessment of China by Germany's political and business elites. If anybody had hoped after Trump's election that China might be the more natural partner in protecting a liberal global economic order, the hopes were soon quashed by China clinging to protecting the status quo of global trade governance rather than reforming the World Trade Organisation (WTO)[22] and by Beijing's failure to meaningfully open up the BRI.[23] China also disappointed Berlin when it failed to respond to high-profile German calls to revive the INF.[24]

Germany is more aligned with the US in its assessment of China, but response strategies diverge

Looking from Berlin, the new trajectory of Germany's China policy in recent years would normally open up unprecedented opportunities for building elements of a transatlantic China policy. US Vice-President Mike Pence's first major and highly controversial speech on China,[25] for instance, would have been rejected outright by German government officials only a few years ago but not so when Pence delivered it in October 2018. During her trip to China in September 2019, Chancellor Angela Merkel may have chosen a softer language than senior US government officials when expressing concern about the situation in Hong Kong. But the message was similar in that it stressed the importance of the 'one country, two systems' principle and of protecting human rights in Hong Kong. Germany's Foreign Minister Heiko Maas was even more forward-leaning when he personally met the Hong Kong political activist Joshua Wong in public and expressed support for the protestors. His stance provoked a backlash from Beijing and the Chinese embassy in Berlin, which hastily arranged for a press conference, at which the Chinese Ambassador, Wu Ken, announced that Germany would suffer from 'negative consequences' in the future.[26]

Berlin also shares the US Administration's assessment that China has failed to live up to the letter and spirit of the WTO, for example as regards market liberalisation, state subsidies, forced tech transfer and the protection of intellectual property (IP), to name but a few. China's outbound industrial policy and civil-military integration meet with the same levels of concern in Berlin as in Washington.[27] Rather than seeing the BRI primarily for its economic potential and developmental

21 'Siemens-Chef Joe Kaeser greift Trump an', *Der Spiegel*, 6/VI/2018, https://www.spiegel.de/wirtschaft/unternehmen/siemens-chef-joe-kaeser-kritisiert-donald-trumps-politik-der-zoelle-und-tweets-a-1211450.html.
22 Peter S. Rashish (2019), 'The United States, Germany, and WTO reform: an answer to the rise of China?', *AICGS*, 28/III/2019, https://www.aicgs.org/2019/03/the-united-states-germany-and-wto-reform-an-answer-to-the-rise-of-china/.
23 'Altmaier reagiert vorsichtig auf Chinas Transparenzversprechen', *Der Spiegel*, 26/IV/2019, https://www.spiegel.de/wirtschaft/soziales/seidenstrassen-gipfel-altmaier-reagiert-vorsichtig-auf-chinas-transparenzversprechen-a-1264702.html.
24 'Heiko Maas will weltweite Abrüstungsinitiative', *Die Zeit*, 2/II/2019, https://www.zeit.de/politik/ausland/2019-02/verteidigung-inf-vertrag-atomwaffen-usa-nato-europa-jens-stoltenberg-donald-trump.
25 Mike Pence (2018), 'Remarks by Vice President Pence on the Administration's policy toward China', The White House, 4/X/2018, https://www.whitehouse.gov/briefings-statements/remarks-vice-president-pence-administrations-policy-toward-china/.
26 Sonja Gillert (2019), 'Chinas Reaktion ist heute schneller und härter', *Die Welt,* 12/IX/2019, https://www.welt.de/politik/ausland/article200211202/Rote-Linien-Chinas-Reaktion-ist-heute-schneller-und-haerter.html.
27 Max J. Zenglein & Anna Holzmann (2019), 'Evolving Made in China 2025: China's industrial policy in the quest for global tech leadership', *MERICS Papers on China*, nr 8, MERICS, July, Berlin, https://www.merics.org/en/papers-on-china/evolving-made-in-china-2025.

aspects, Berlin –just like Washington– is primarily concerned about the geopolitical downsides of the initiative, resisting lobbying pressures by some German companies that have encouraged the chancellery to publicly embrace the initiative in order to strengthen their prospects of winning BRI contracts.[28]

After decades of preserving privileged bilateral relations with China, Germany's China policy has lately been characterised by a growing 'European reflex'.

There is also a growing appreciation among German political elites that China's rise as a tech power carries significant security and privacy risks.[29] The plans for a national and EU industrial policy of Germany's Minister of the Economy, Peter Altmaier,[30] were driven to a significant extent by concerns about being outcompeted by Chinese state capitalism. It hardly needed warnings from the US on the potential risks of involving Huawei in building 5G networks and the decision by the German government of not banning Huawei outright has been subjected to strong domestic contestation, including by a majority of members of the Bundestag. Indeed, the latter seem determined to defeat the more benevolent approach of the Merkel government and legislate for a de facto ban of Huawei equipment in the roll out of core and possible even peripheral 5G network technology.

However, there is also critical issues that set Germany and the US apart: in facing systemic economic competition with China, German and US companies pursue rather different strategies. Rather than contemplating ways to decouple from the Chinese economy, like the US, Germany remains committed to close economic relations with China regarding mutual investments, industrial and investment cooperation and the integration of some supply chains. While US businesses by and large share the medium- to long-term risk assessment of the White House on China and hedge accordingly by reducing the dependency on Chinese suppliers and customers, major German corporates have doubled down on their China business. Even at the height of the Hong Kong protests in September 2019, which have alarmed many German businesses, leading German CEOs took the opportunity of travelling with Chancellor Merkel to China to sign 11 new, major deals.[31]

Muddling through on China for now, Germany's 'European reflex' sees a revival

After decades of preserving privileged bilateral relations with China, Germany's China policy has lately been characterised by a growing 'European reflex', whereby Germany tries to broker a greater alignment of EU member-state positions on China. The German proposal of hosting an EU-China Summit at the level of all 27 EU heads of state and government in Leipzig during the German EU Presidency in the second half of 2020 has made the headlines as an attempt to

28 Jan Gaspers (2016), 'Germany wants Europe to help shape China's Belt and Road Initiative', *The Diplomat*, 17/XII/2016, https://thediplomat.com/2016/12/germany-wants-europe-to-help-shape-chinas-belt-and-road-initiative/.
29 Kristin Shi-Kupfer & Mareike Ohlberg (2019), 'China's digital rise: challenges for Europe', *MERICS Papers on China,* nr 7, MERICS, April, Berlin, https://www.merics.org/en/papers-on-china/chinas-digital-rise.
30 Bundesministerium für Wirtschaft und Energie (2019), 'Nationale Industriestrategie 2030: Strategische Leitlinien für eine deutsche und europäische Industriepolitik', February, Berlin, https://www.bmwi.de/Redaktion/DE/Publikationen/Industrie/nationale-industriestrategie-2030.pdf?__blob=publicationFile&v=24.
31 Friederike Böge & Eckart Lohse (2019), 'Viel Wirtschaft und ein bisschen Menschenrechte', *Frankfurter Allgemeine Zeitung*, 6/IX/2019, https://www.faz.net/aktuell/politik/ausland/merkel-in-peking-viel-wirtschaft-wenig-menschenrechte-16371820.html.

undercut the appeal of the 17+1 format,[32] Beijing's primary vehicle for privileged cooperation with Central and Eastern European countries. However, this is just the tip of the iceberg in terms of a newly emerging German European China agenda.

In the past, German officials have successfully sought an alliance with France and Italy on EU FDI investment screening legislation[33] and with France and Poland on matters of strengthening competitiveness vis-à-vis China. In the run-up to the second BRI Forum in May 2019, Berlin put considerable effort into arriving at a common position with France, Spain and the UK, which prompted them to jointly argue that only a collective European BRI MoU with China could be contemplated in the future.[34] The German Foreign Office also partnered up with the French Ministry of Foreign Affairs and toured the Visegrád countries to sound out what could be done to have these countries support a more cohesive EU China policy. Notably, the new European reflex in German China policy goes well beyond government quarters. The BDI, for example, was quick to engage in consultations with other EU member state business groups and stakeholders in Brussels to present its January 2019 China strategy paper.

However, despite efforts to work more closely with other EU member states on the China agenda as a means of strengthening Europe's strategic autonomy, closer cooperation with the US also remains important to Berlin. Many German officials regard economic policy vis-à-vis China as a missed opportunity of greater transatlantic coordination. They are keen to avoid a similar outcome on matters of security policy. As a result, Germany has lately actively pushed for the inclusion of China on the NATO agenda, which has worked across committees over the course of 2019 to develop elements of a China strategic outlook and policy agenda. It remains to be seen what effect this will have on future transatlantic security cooperation towards China. However, even if the relationship between the White House and political Berlin remains strained in the years to come, there will be no German pivot to China.

32 Andreas Rinke (2019), 'Merkel planning EU-China summit for Germany's 2020 presidency: sources', *Reuters*, 14/I/2019, https://www.reuters.com/article/us-eu-china-germany/merkel-planning-eu-china-summit-for-germanys-2020-presidency-sources-idUSKCN1P81P1.
33 Brigitte Zypries, Michel Sapin & Carlo Calenda (2017), 'Letter to Cecilia Malmström', February, Berlin, https://www.bmwi.de/Redaktion/DE/Downloads/S-T/schreiben-de-fr-it-an-malmstroem.pdf?__blob=publicationFile&v=5.
34 Tom Daly (2019), 'Europe wants to deal with China as a group: German minister', *Reuters*, 26/IV/2019, https://www.reuters.com/article/us-china-silkroad-germany/europe-wants-to-deal-with-china-as-a-group-german-minister-idUSKCN1S20R3.

GRECO-US TIES DEEPER THAN SINO-GREEK RELATIONS

GRECO-US TIES DEEPER THAN SINO-GREEK RELATIONS

Plamen Tonchev
Institute of International Economic Relations

Abstract

While Greece is struggling to recover from a protracted economic slump, it is facing significant geopolitical challenges in the East Mediterranean and the West Balkans. This is what largely explains the role of the US in the foreign policy of Athens, in conjunction with the growing presence of US investors. China, in turn, remains a major trade partner and a potential investor, but not a significant actor in the realm of security. After a decade of estrangement from the West, Greece is rediscovering the depth of its ties with the US.

While Greece is subject to pressure by both Washington and Beijing, the foreign policy of Athens is affected primarily by developments in its vicinity and to a lesser extent by the current US-China stand-off on a global level. The main concerns of Greece relate to the unpredictable behaviour of its neighbouring Turkey in the Aegean and the East Mediterranean. In addition, Athens attaches significance to the growing political instability in the West Balkans. At the same time, Greece is slowly crawling out of a protracted economic slump and badly needs investment capital for its speedy recovery. Yet another development to be taken into account is the change of guard in Athens in July 2019, with the right-of-centre New Democracy party, led by Kyriakos Mitsotakis, replacing the radical left government of Alexis Tsipras. These three factors largely shape the current state of play between Athens, Washington and Beijing.

Overview of Greece's links with the US and China

The primary pillars of Greece's relations with the US and with China differ a great deal. The long-term framework of Greco-US ties does not compare with Sino-Greek relations, which barely exceed a decade and are mainly driven by an economic agenda.

The rapport between the Greek and US nations is based on profound people-to-people links, through consecutive waves of migration to the New World. Nowadays, an estimated 1.3 million US citizens are of Greek ancestry and many of them excel in US public life. During the Cold War Greece belonged to the 'western hemisphere' and was a major beneficiary of the Marshall plan. The country has been a NATO member since 1952 and in 1979 Washington threw its weight behind Greece's accession to the European Economic Community (EEC, and later the EU) on the premise that this would buttress the southern flank of the Alliance.

While Greece and China have had diplomatic relations since 1972, it was only in the mid-2000s that their ties started growing. The starting point of China's presence in the country was 2008, when China COSCO Shipping[1] signed a concession agreement with the government for a large part of the Piraeus sea port. COSCO's presence in Greece was further consolidated in 2016 with the purchase of a majority stake in the Piraeus Port Authority (PPA).

1 COSCO Pacific Ltd at the time. China COSCO Shipping was formally established in February 2016 through the merger of China Ocean Shipping (Group) and China Shipping (Group).

The US and Chinese economic presence in Greece

Between 2014 and 2018 the worth of Greek exports to China more than trebled and the trade balance, steadily in favour of China, improved from 10:1 to 4:1. In turn, Greece has a positive balance with the US, although the overall trade volume is much smaller.[2]

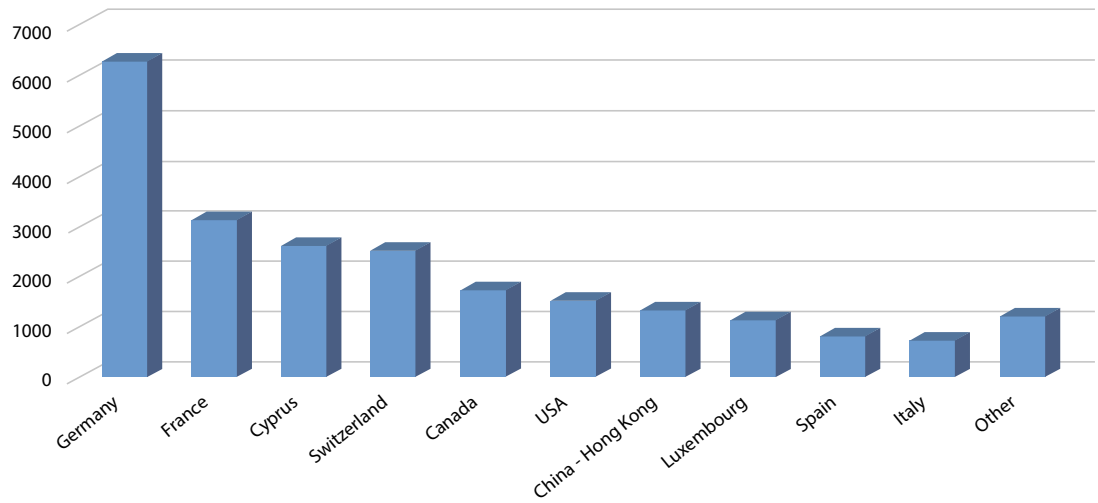
Figure 1. Trade with the US and China, 2018 (€ million)

Country	US	China
Exports	1,370.7	902.4
Imports	689.7	3,598.8
Volume	2,060.4	4,501.2
Balance	+370.1	-2,696.5

Source: Bank of Greece.

Between 2008 and 2018 the US and China ranked sixth and seventh, respectively, on the list of foreign investors in Greece. According to the Bank of Greece, over that span of time the US and China were nearly on a par, with the total of their foreign direct investments (FDI) slightly exceeding €1 billion each. While Chinese FDI in Greece in 2018 amounted to €1.2 billion, Greek investment in China –mostly shipping companies and nearly exclusively in Hong Kong– reached €1.8 billion.[3]

Figure 2. FDI inflows by country of origin of capital, 2008-18 (€ million)



Source: Bank of Greece.

2 Economic and Trade Affairs Offices of the Embassies of Greece to China and the US.
3 Bank of Greece.

The main thrust of the Chinese economic presence in Greece relates to COSCO's investment in the port of Piraeus, which is turning into a strategically important gate to Europe. COSCO's plans for expansion in the port area have caused some consternation among local stakeholders, but an amended €600 million version of the proposal has now been accepted by the Greek authorities. The second largest investment project, by China's State Grid in the Independent Power Transmission Operator, has not led to any spin-off activities to date. Athens is eager to see Chinese FDI in the country's industry and agriculture, which has not been the case to date and, what is more, some Chinese investment plans have not materialised.[4] By and large, the expectations for a large wave of Chinese foreign direct investment (FDI) in Greece have not been met.

Throughout most of the 2010s, there was practically no new US investment in Greece, but lately the US economic footprint in the country has been growing considerably. In 2018 the Greek-US group ONEX took over the Neorion shipyards on the island of Syros and, a year later, agreed to invest in Greece's second-largest shipyard in Elefsina. Yet another recent development relates to the import of liquefied natural gas (LNG) from the US. In relation to that, US officials have expressed their interest in the creation of a Floating Storage Regasification Unit (FSRU) in Alexandroupolis in northern Greece.

The return of geopolitics

The geopolitical set-up in the Eastern Mediterranean and, to a lesser extent, the Western Balkans, has clearly favoured a more prominent role of the US, a development that dates back to the Tsipras government and is now picking up even more with New Democracy in power. The first annual Greek-US Strategic Dialogue was held in Washington in December 2018 and was repeated in Athens in October 2019, in the presence of Secretary of State Mike Pompeo.

The magnitude of the security challenges that Greece is facing highlights Washington's edge, as compared to Beijing's. For instance, in the event of an armed stand-off between Athens and Ankara, China will most probably opt for non-engagement. On the contrary, the US will be called upon to undertake a mediating role, as it has done in the past. Similarly, if there is a new migrant crisis, arguably used by Turkey to pressure the EU, once again it will be the western partners that Greece can count on. Notably, data recorded in 2019 suggest that the migrant flows have been rising again.[5]

Credit is due to the former left-wing Prime Minister Alexis Tsipras for the rapprochement between Greece and the US. After an initial 'rebellious' attitude in his early days in power, not only did he accept close ties with Washington, but even requested an enhanced US presence in Greece.[6] In October 2017 he discussed with Donald Trump a deal worth nearly US$1 billion for upgrading Greece's F-16s. The aircraft overhaul has now been enlarged and the purchase of F-35 fighters may also be on the cards.

4 In 2016 COSCO pulled out of the bid for the acquisition of TRAINOSE, the operator of the Greek railway network. In 2018 and 2019 the China Machinery Engineering Corporation (CMEC) and China Energy stayed away from two consecutive tenders for the construction of a coal-fired power plant in north-western Greece.
5 Tom Ellis (2019), 'Worrying increase of migrant flows in the Aegean', *Ekathimerini*, 11/VIII/2019, http://www.ekathimerini.com/243485/article/ekathimerini/comment/koumoutsakos-to-kathimerini-worrying-increase-of-migrant-flows-in-the-aegean.
6 'Deeper US-Greece defence cooperation and the role of Souda', *To Vima*, 10/IX/2018, https://www.tovima.gr/2018/09/10/international/deeper-us-greece-defence-cooperation-and-the-role-of-souda/.

Athens and Washington have a Mutual Defense Cooperation Agreement (MDCA) since 1990. The US has persistently pursued acquiring access to military bases for missions stretching from the eastern Mediterranean into the Black Sea and the Balkans. In Greece, Pentagon officials focus on the Souda air and naval base in Crete, and the stationing of MQ-9 Reaper UAVs (drones) in Larisa. An upgraded version of the MDCA, signed during the second Greek-US Strategic Dialogue in October 2019, provides for US military facilities in Alexandroupolis as well.

China has no part to play in Greece's defence, although Chinese vessels from the People's Liberation Army Navy (PLAN) have occasionally called at Piraeus on friendly visits. Normally, these are ships involved in anti-piracy patrols off the coast of Somalia and Yemen. On one occasion, three PLAN vessels have held joint training exercises with a Greek frigate in the Saronic Gulf next to Athens.[7] China is not a significant actor in the geopolitics of the Eastern Mediterranean, though it has been pointed out that a much-needed discourse on a potential dual use of the Piraeus port has yet to commence in Greece.[8]

Greece between the US and China

On this bone of contention, China's control of the port of Piraeus since 2016,[9] the radical left government had to accept some unpalatable terms, clearly set by China. Subsequently, the Tsipras government made several high-profile goodwill gestures to China, much to the displeasure of its western partners. Thus, in July 2016 Greece backed Beijing over the South China Sea dispute in the wake of the ruling by the Permanent Court of Arbitration in The Hague. In June 2017 Greece blocked an EU statement on human rights in China, causing fury in many western capitals. In August 2018 Greece and China signed a Memorandum of Understanding to advance Beijing's flagship Belt and Road Initiative. In April 2019 Greece joined the 16+1 (now 17+1) format for cooperation between China and Central/East European countries, despite reservations in western quarters.

On another contentious issue, 5G and Huawei's presence in the country, Athens does not have a clear stance at this stage. While Greece has a National Digital Strategy for 2016-21 and a National Broadband Next Generation Access Plan, these policy documents merely reflect objectives set in the 5G for Europe Action Plan. There have been no official government statements about national security risks in relation to the presence of Chinese high-tech corporations. A Greek telecom company has piloted 5G hot spots in one city through the use of Huawei equipment, but there are competitors: Ericsson and Nokia have also developed pilot 5G applications with another Greek operator in one of the Athens municipal councils. It remains to be seen whether Huawei will be able to sign nation-wide contracts under the new government, which has announced a 5G roll-out plan towards the end of 2020.

The US-Iran confrontation has not caused Greece any headache. After withdrawing from the Joint Comprehensive Plan of Action (JCPOA) agreement, the US re-imposed sanctions against Tehran,

7 'Three Chinese warships dock at Piraeus for courtesy call', https://thegreekobserver.com/greece/article/24019/three-chinese-warships-dock-piraeus-courtesy-call/.
8 Plamen Tonchev, Polyxeni Davarinou (2017), 'Chinese investment in Greece and the Big Picture of Sino-Greek Relations', Institute of International Economic Relations (IIER), December, https://idos.gr/wp-content/uploads/2017/12/Chinese-Investment-in-Greece_4-12-2017.pdf, p. 55.
9 Stuart Lau (2019), 'Amid headwinds, Greece gives Cosco greenlight for partial Piraeus port upgrade', *South China Morning Post*, 11/X/2019, https://www.scmp.com/news/china/diplomacy/article/3032618/amid-headwinds-greece-gives-cosco-green-light-partial-piraeus.

but a short-term waiver was granted to eight countries, including Greece.[10] Interestingly, there has been a significant about-face in Greece's position on Venezuela: before the July 2019 general elections, Athens openly supported the Maduro government,[11] as do Beijing and Moscow.[12] Only three days after the Mitsotakis cabinet took over, Greece recognised Juan Guaidó as the legitimate interim President of the South American country. Washington was quick to hail Greece's decision, for coming back into the western orbit.

There is at least one foreign policy area in which the US and China were actually on the same boat: the 2018 Prespa agreement between Athens and Skopje over the name of North Macedonia. While the settlement of this protracted stand-off was favoured by the EU, the US and NATO, the end of the dispute suited China as well, with a view to the construction of a transport corridor from Greece to Hungary –however, Beijing confined itself to discrete diplomacy, without officially taking sides.

Conclusions

The following three trends in Greece's relations with the US and China can be foreseen in a short- to mid-term perspective:

(1) Geopolitics will clearly dominate Greece's foreign policy in the years to come. Volatility in the country's vicinity favours a more prominent role for the West, including the US, while China has little to offer in this respect. Faced with serious security challenges, Athens is revisiting some of the assumptions of the Tsipras government, which attached unwarranted significance to Beijing as a political ally. Consequently, the Mitsotakis government pursues the deepening defence cooperation with the US and mending fences with the EU.

(2) Greece hopes to capitalise on its important position in the Eastern Mediterranean and South-East Europe. Greek governments view COSCO's investment in Piraeus as a positive development and China will remain a significant economic partner. However, while the friendly spirit marking Sino-Greek relations is unlikely to change, Chinese FDI will be sought after in conjunction –and competition– with other sources of investment capital, including the US.

(3) All the above trends point to the recalibration of Beijing's clout in Greece vis-à-vis Washington's growing influence. This does not necessarily lead to a downgrading of Sino-Greek relations. Rather, it is now becoming clear what exactly Beijing can –and cannot– do for Greece, ie, a realisation that China is essentially a trade partner and a potential investor but not a significant actor in the realm of security. In other words, after a tumultuous decade, Greece is on course to of reaffirming its allegiance to the West and returning to its deep and well-established ties with the US.

10 The other countries benefiting from the waiver were Italy, Turkey, China, India, Japan, South Korea and Taiwan.
11 Tasos Kokkinidis (2019), 'Greece finds itself the odd man out on Venezuela', Greek Report, 4/II/2019, https://greece.greekreporter.com/2019/02/04/greece-finds-itself-the-odd-man-out-on-venezuela/.
12 Rocio Cara Labrador (2019), 'Maduro's allies: who backs the Venezuelan regime?', *Council on Foreign Relations*, 5/II/2019, https://www.cfr.org/article/maduros-allies-who-backs-venezuelan-regime.

HUNGARY THE PEACOCK'S DANCE

HUNGARY THE PEACOCK'S DANCE

Tamas Matura
Corvinus University of Budapest

Abstract

The Hungarian government is not afraid to navigate the stormy waters between the US and China. Budapest has been cosying up to Beijing for years and is now trying to tame US requests to distance itself from China by making business deals to please President Trump. Meanwhile the government does not want to give up its close relationship with China either, despite the lack of tangible economic results. Politics play the primary role in Hungarian-Chinese relations, as the Prime Minister sees Beijing as an important friend to hedge against increasing pressure from the EU and the US. It is a major question how long this complex shuttlecock policy can last, especially since not only Washington and Beijing are part of the game, but Russia, Turkey and Germany also play a role in Hungary's foreign policy strategy.

The Hungarian Prime Minister, Viktor Orbán, has always been very open about his foreign policy strategy. A few months after his election success in 2010 he announced that 'We are sailing under a Western flag, though an Eastern wind is blowing in the world economy'.[1] According to statements he has made in recent years, he believes that the Western world has reached the limits of its dominance, that the East will dominate the future and that Hungary has therefore to adapt to the new reality. In 2012 he compared his foreign policy to a 'peacock's dance', a strategy designed to appease critics in the short term while consistently pursuing his interests in the long term. He seems to follow this approach on a global scale as well, as he attempts to foster good relations with all major members of the international community, even though these players may have diverging if not contradictory interests. As he said in 2018, Hungary lives in a sphere dominated by Istanbul, Moscow and Berlin.[2] With the (geo)political return of the US to Central Europe, Washington is attempting to push Hungary back into the Western sphere of interest and to prevent it from nurturing close relations with Russia and China.

The US factor

Once a liberal, Orbán used to have a cordial relationship with the US in the first half of his first premiership (1998-2002), and he was invited by President Clinton to the White House in 1998. Later, however, he started to slide towards the right of the political spectrum and some of his decisions triggered alarm bells in Washington. The US had tried to convince Budapest to buy F-16 fighters before Orbán made his highly unexpected decision to reject the US offer and to buy Swedish Gripens instead. The decision was announced on 10 September 2001. Following the 9/11 attacks in New York, one of the political allies of the Prime Minister said that the US 'deserved what it got' and despite Washington's requests to openly distance himself from such statements, Orbán remained silent. As a consequence, the Bush Administration reassessed its relations with Orbán and never officially invited him back to the Oval Office.[3]

1 'Orbán: Keleti szél fúj', www.index.hu, 5/XI/2010, https://index.hu/belfold/2010/11/05/orban_keleti_szel_fuj.
2 'Orbán: Sztambul-Moszkva-Berlin vonzáskörében élünk', 8/X/2018, https://index.hu/belfold/2018/10/08/erdogan_orban_viktor_sajtotajekoztato/.
3 'Trump loves a strongman, so of course he fawns over Hungary's Viktor Orban', *The Washington Post*, 25/V/2018, https://www.washingtonpost.com/outlook/trump-loves-a-strongman-so-of-course-he-fawns-over-hungarys-viktor-orban/2018/05/25/a10bff28-5f64-11e8-a4a4-c070ef53f315_story.html.

Compared with his first term as Prime Minister, his foreign policy has become less pro-US and pro-EU since 2010 and he has turned Hungary's prow (a landlocked country, remember) towards China, Russia and Turkey. This development was amplified by the Obama Administration's criticism of Hungarian domestic politics and the corrosion of democracy in the country. President Obama explicitly mentioned Hungary in a speech in 2014, in which he claimed that 'regulations and overt intimidation increasingly target civil society' in Hungary.[4] US-Hungarian relations gradually deteriorated between 2010 and 2017 and, as a major sign of Washington's disappointment, Orbán was not invited to the White House for a bilateral meeting under the Obama Administration.

The Hungarian Prime Minister made a bold move during the US presidential campaign in 2016 when he embraced Donald Trump well before he won the elections in November. Many expected a swift turn-around in US-Hungarian relations following Trump's inauguration in early 2017, but Orbán did not receive an invitation to the Oval Office until May 2019, when he finally had the chance to have bilateral talks with the US President. The Trump Administration has embraced a different approach to its predecessor, as it stopped criticising the domestic policies and ideology of the Hungarian government to achieve pragmatic results in Washington's interest such as military and energy cooperation. As a sign of goodwill, the US State Department cancelled a project designed by the previous Administration to financially support non-governmental independent media in the Hungarian countryside, and in 2018, for the first time in four years, the Secretary of State received the Hungarian Minister of Foreign Affairs.

According to leaked diplomatic messages, the new US approach is based on the understating that the strategy of the Obama Administration pushed certain Central and Eastern European countries, including Hungary, into the arms of Moscow and Beijing. The Trump Administration wants the region to rid itself of Chinese and Russian influence and to support the geopolitical interests of Washington.[5] The new US Ambassador to Budapest mentioned three important issues right after his arrival: that the Central European University (CEU, founded by the Hungarian-US philanthropist and investor George Soros) should remain in Budapest; that Hungary should not obstruct NATO support for Ukraine; and that Hungarian companies should buy US natural gas. For a while it seemed that the surprisingly positive tone and somewhat unusual actions of the US Ambassador might soften the Hungarian government's heart to hammer out agreements on issues important to Washington.[6] The CEU, however, had to partially leave Hungary, and Hungary is still reluctant to fully support NATO policies in Ukraine.[7] On the other hand, it seems that Orbán has found the key to deal with the Trump Administration in form of arms deals and gas purchases.

According to media sources the US Ambassador claimed that Hungary would soon buy gas from ExxonMobil's Romanian offshore gas fields as well as US liquified natural gas. He also said that a billion-dollar arms deal between Hungary and Lockheed Martin would be announced soon, and that there is a second billion-dollar deal possibly with Raytheon.[8] Furthermore, the Hungarian

4 'Remarks by the President at Clinton Global Initiative', The White House, 23/IX/2014, https://obamawhitehouse.archives.gov/the-press-office/2014/09/23/remarks-president-clinton-global-initiative.
5 'Türelmetlen amerikaiakról és lavírozó Orbánról árulkodik egy bizalmas diplomáciai irat', *444.hu*, 31/I/2019, https://444.hu/2019/01/31/turelmetlen-amerikaiakrol-es-lavirozo-orbanrol-arulkodik-egy-bizalmas-diplomaciai-irat.
6 'In Hungary, a freewheeling Trump Ambassador undermines US diplomats', *The New York Times*, 22/X/2019, https://www.nytimes.com/2019/10/22/world/europe/david-cornstein-hungary-trump-orban.html.
7 'Hungary vetoes NATO statement on Ukraine over minority rights', *Reuters*, 30/X/2019, https://www.reuters.com/article/us-hungary-nato-ukraine/hungary-vetoes-nato-statement-on-ukraine-over-minority-rights-minister-idUSKBN1X91ZI.
8 'Trump and Orban to cut billion-dollar arms deals at the possible expense of Hungarian NGOs', *Direkt36.hu*, 12/V/2019, https://www.direkt36.hu/en/orban-es-trump-milliard-dollaros-fegyveruzletre-keszul-de-ennek-magyar-civilek-lathatjak-karat/.

Parliament finally approved a long-awaited new Defence Cooperation Agreement with the US, and it also approved legislation allowing the stationing of US troops in Hungary.[9]

The US Secretary of State, Mike Pompeo, visited Budapest in February 2019, and he made some important remarks on the dangers of Chinese influence in the Central European region, including the issue of Huawei. He commented that each nation could make its own decisions, but suggested US cooperation could be downgraded in nations that chose to maintain a strong Huawei presence.[10] Despite all US diplomatic efforts, the Hungarian government does not see any national security threat associated with Huawei or the Belt and Road Initiative (BRI), and official warnings about Chinese (or US) tech risks have never been issued by its national security agencies. The foreign-owned telecom companies dominating the Hungarian market have made positive statements about the use of Chinese 5G technology, and Budapest has no reason to dissent from the announcement of the German government to include Huawei technology in the development of its network. As proof of the Hungarian government's trust, the Foreign Minister announced in November 2019 that Huawei would develop the 5G system in Hungary in cooperation with Vodafone and Deutsche Telekom.[11]

Despite all US diplomatic efforts, the Hungarian government does not see any national security threat associated with Huawei or the Belt and Road Initiative (BRI).

The US is still a significant, though not the most important, economic partner for Hungary. Trade-wise the US is less important than China, with only 1.8% of imports originating from the US and 2.8% of exports having the American market as their destination in 2018. The figures for China are 5.4% and 1.9%, respectively. The US, however, is still more important as an investor in Hungary, though its stock of investment had declined to €11 billion by the end of 2017.[12] Of course, the US is still an indispensable ally and security guarantor for Hungary, while Budapest seems to be reacting positively to US demands to increase the NATO defence budget in upcoming years.

The China card

Compared with the ups and downs of US-Hungarian relations, cooperation between Budapest and Beijing has been smooth and politically successful since 2010. The so-called Eastern Opening (or Opening to the East) Policy was introduced in the first year of the second Orbán cabinet as a reaction to the crisis, and the Prime Minister adopted a surprisingly pragmatic new attitude and did everything to strengthen relations with Beijing and the Communist Party of China (CPC). The main goal of the Hungarian government's policy towards Beijing had been economic, boosting bilateral trade and increasing the inflow of Chinese investment to create jobs and find alternative markets and new sources of investment amidst the crisis of the Eurozone.

9 'Parliament approves new US-Hungary defense agreement', *Budapest Business Journal*, 2/VII/2019, https://bbj.hu/politics/parliament-approves-new-us-hungary-defense-agreement_167889.
10 'Pompeo in Hungary for Orbán meeting as US reengages in region', *The Guardian*, 12/II/2019, https://www.theguardian.com/us-news/2019/feb/11/mike-pompeo-to-meet-viktor-orban-on-tour-of-central-europe.
11 'Hungary Says Huawei to help build its 5G wireless network', *The New York Times*, 5/XI/2019, https://www.nytimes.com/aponline/2019/11/05/business/bc-eu-hungary-huawei.html.
12 'Stock of inward FDI by the country of the ultimate investor', Hungarian Central Bank, https://www.mnb.hu/letoltes/vegsobefektetoeuren.xlsx (last access 5/X/2019).

Despite all the efforts of the Hungarian government, the annual inflow of Chinese capital has been decreasing dramatically since 2010, at least accordingto official statistics.

It seems, however, that the main aim of the relationship has become more political since 2014, partly due to the lack of major economic results and partly because of the growing Western political pressure on Hungary. One can only speculate that Orbán sees Beijing as a potential political ally to hedge against the increasing pressure and criticism of the EU and to increase his political space and bargaining power on an international level. The Prime Minister visited China in 2010, 2014, 2015, 2017, 2018 and 2019, the two governments elevated bilateral relations to the level of a comprehensive strategic partnership and, furthermore, Orbán attended every single 16+1 (17+1) summit. Orbán has mentioned China several times as a good example of a successful 'labour-based society', and as an alternative to Western economies 'based on speculation'.[13] As a clear sign of goodwill the Hungarian government decided to join the BRI as the first EU member in 2015, and it has been keen to attend all international forum organised by Beijing ever since, while the Prime Minister represented the country at both Belt and Road Forums. The Hungarian government has even decided to obstruct the EU's joint statement on the International Court of Arbitration's ruling regarding the South China Sea[14] and to refuse to criticise the BRI.[15]

When it comes to Chinese direct investment, Hungary enjoys a favourable position compared to other countries in the region, though the actual volume is not high. According to the statistical database of the Hungarian Central Bank, the stock of Chinese investment by the end of 2017 stood at a mere €1.6 billion, or 2.13% of the total stock of FDI in the country, which is significantly less than the €11.3 billion invested by US companies.[16] Despite all the efforts of the Hungarian government though, the annual inflow of Chinese capital has been decreasing dramatically since 2010, at least according to official statistics[17] (it should also be noted, however, that government officials usually mention much higher figures of around €4.5 billion.) The Hungarian government has moved fast and passed a bill in October 2018 to enact a national-level investment screening mechanism. It introduces a mandatory review process and conditions the acquisition of stakes by foreign entities in strategically sensitive businesses upon prior approval by the relevant Minister as designated by government decree.[18] The Hungarian mechanism is relatively soft compared to the Polish or other regimes, but the EU level mechanism was watered down as well.

It is also debatable whether strong political relations or 16+1 cooperation had any major impact on Hungarian exports to China either. EU exports to China grew by 18% annually on average between

13 'The speech of Viktor Orbán on July 26, 2014', Cabinet Office of the Prime Minister, 2014, http://2010-2015.miniszterelnok.hu/in_english_article/_prime_minister_viktor_orban_s_speech_at_the_25th_balvanyos_summer_free_university_and_student_camp.
14 T.N. Rühlig *et al.* (Eds.) (2018), 'Political values in Europe-China relations', European Think Tank Network on China, December, https://www.ifri.org/sites/default/files/atoms/files/full-report-web-version_updated_2019.pdf.
15 'EU ambassadors band together against Silk Road', *Handelsblatt*, 17/IV/2018, https://www.handelsblatt.com/today/politics/china-first-eu-ambassadors-band-together-against-silk-road/23581860.html?ticket=ST-68734122-zVIE3kFUOAxEmjcCZsuh-ap2.
16 'Stock of inward FDI by the country of the ultimate investor', *op. cit.*
17 Matura Tamas (2015), 'Chinese investment in Hungary: few results but great expectations', in J. Seaman, M. Huotari & M. Otero-Iglesias (Eds.), *Chinese Investment in Europe – A Country-Level Approach*, European Think Tank Network on China, https://www.ifri.org/en/publications/publications-ifri/ouvrages-ifri/chinese-investment-europe-country-level-approach.
18 Tamás Peragovics (2018), 'Will Hungary respond to European concerns on Chinese foreign investment?', Institute of World Economics Blog, 30/X/2018, https://vilaggazdasagi.blog.hu/2018/10/30/will_hungary_respond_to_european_concerns_on_chinese_foreign_investment_a_preliminary_assessment_on_.

2005 and 2011 (the effect of EU expansion is insignificant), while Hungary gained 28% annually when calculated in euros. Meanwhile, between 2011 and 2018 the annual average increase in the EU reached 8.2%, whereas the Hungarian figure was less than 8.1%.[19] This means that one of the most prominent goals of 'Opening Up to the East' –export promotion to China– has failed to exploit the political momentum and has simply performed in line with the EU general trend.

Despite the deep divisions in the Hungarian political arena, Chinese-Hungarian relations enjoy a privileged position, as none of the major parties publicly question the importance of China and politically sensitive issues are not on the agenda. Hence, prominent politicians of the opposition barely mention China publicly at all.[20] This gives ample political space to the government to strengthen relations with Beijing, as the criticism from both the opposition and the public focuses on the close ties between Budapest and Moscow.

US-Chinese friction and Hungary

Based on the Hungarian government's actions and policies, as described above, it is clear that Obán focuses on opportunities and political manoeuvres rather than on threats and risks associated with the friction between Washington and Beijing. His strategy of having his cake and eating it at the same time seems to be working for the time being, although it is uncertain how the country would react to a potential future inflexion point in US-Chinese rivalry if a choice must be made. Given Orbán's support of the establishment to an EU's army and the country's dependence on Germany and the EU, it is likely that Hungary will follow the lead of major European countries and try to avoid taking sides openly. Meanwhile, the Hungarian Prime Minister has been an adamant supporter of national sovereignty, so it is hard to believe he would sign up for greater European autonomy if it meant stronger control in the hands of Brussels. Right now, Orbán seemingly enjoys his position as he has been associated with President Trump, Xi, Putin and Erdogan by the international media, which certainly gives him ample political space internationally and support domestically. He managed to please these four major leaders through business deals, and even Angela Merkel has praised recently praised Hungary's economic performance.[21]

19 The author's calculations based on Eurostat and Hungarian Central Statistical Office figures.
20 Ivana Karásková, Tamás Matura, Richard Q. Turcsányi & Matej Šimalčík (2018), *Central Europe for Sale: The Politics of China's Influence*, Policy Paper, nr 03, AMO.
21 'Did Merkel really praise Hungary for use of EU funds? Proof ends debate', *Hungary Today*, 21/VIII/2019, https://hungarytoday.hu/did-merkel-really-praise-hungary-for-use-of-eu-funds-proof-ends-debate/.

ITALY: BETWEEN THE EURO-ATLANTIC ALLIANCE AND THE PULL OF CHINESE MONEY

ITALY: BETWEEN THE EURO-ATLANTIC ALLIANCE AND THE PULL OF CHINESE MONEY

Nicola Casarini
Instituto Affari Internazionali

Abstract

During the Cold War, Italy viewed itself as a bridge between the East and West and pursued open dialogue and economic partnerships with both the US and the Soviet Union. This foreign policy tradition continues today with regard to Washington and Beijing. In March 2019 Italy became the first G7 nation to sign a Memorandum of Understanding (MoU) on the Belt and Road Initiative (BRI). This raised concerns in Washington, as the MoU weakened the US position in its tug-of-war with China over trade and global leadership. Italy remains firmly committed to NATO and the military alliance with the US. However, it is increasingly attracted by Chinese money and by the potential of the vast Chinese market for 'Made in Italy' products. Thus, Italy's long-standing tradition of seeking to be a bridge between the West and the East is likely to continue.

On 23 March 2019 Italy became the first G7 nation and the first founder member of the EU to sign a Memorandum of Understanding (MoU) on the Belt and Road Initiative (BRI), China's massive infrastructure and connectivity project. It was a major win for Chinese President Xi Jinping, who had chosen Italy for his first state visit abroad in 2019.

Italy's embrace of President Xi's signature foreign policy initiative raised concerns in Washington, as the MoU weakened the position of the US in its tug-of-war with China over trade and global leadership. Remarkably, the Italian government that signed up for the MoU in March 2019 –a populist coalition formed by the hard-right League and the anti-establishment Movement 5 Stars (M5S), in power between June 2018 and August 2019– was one of the most supportive of US President Donald Trump among European executives and yet on China, Italian populists defied their mentor.

By signing the MoU, the League-M5S government hoped to increase exports of 'Made in Italy' products to China as well as attract Chinese investments in Italy. As of November 2018, the bilateral trade volume had reached US$48.25 billion, more than the total for the whole of 2017, making Italy China's 9th largest export destination and 3rd largest source of imports. Although Germany, France and the UK have traditionally been the preferred destinations for Chinese FDI, in 2015 Italy overtook France for cumulative Chinese FDI beginning from the year 2000. The sudden increase in the 2015 FDI flow was due to the Chinese SOE ChemChina acquiring 16.89% of Pirelli, the world's 5th largest tire maker, for US$7.9 billion.[1]

Chinese FDI spans across a wide variety of industries in Italy, including entertainment, robotics and luxury brands. The People's Bank of China has invested around 2% in 10 of Italy's largest companies, including those in the automotive industry and telecommunications, amounting to a total of around US$ 4 billion.[2]

1 Liu Meng (2019), 'China-Italy deal a milestone in cooperation', *China Daily*, 26/III/2019, https://www.chinadaily.com.cn/a/201903/26/WS5c99657aa3104842260b2792.html.
2 Dezan Shira & Associates (2019), 'Chinese FDI in the EU's top 4 economies', *China Briefing*, 8/V/2019, https://www.china-briefing.com/news/chinese-fdi-eu-top-4-economies/.

However, the US remains one of Italy's most important trade partners, largely surpassing China. US-Italy trade in 2018 reached US$77.875 billion. US exports to Italy totalled US$18.03 billion while US imports from Italy totalled US$42.96 billion, a deficit of US$24.94 billion. In 2018 Italy was the 19th largest market for US exports and the 4th largest export market in the EU, following Germany, the Netherlands and France.[3]

US direct investment in Italy totalled US$30.70 billion in 2017, with Italy ranking 8th in Europe, less than half of the US investment in France and one quarter the size of US FDI in Germany. US investment in Italy is concentrated in manufacturing, computer services and software, and energy, with significant industrial relationships in the aerospace and automotive sectors.[4]

This chapter explains how Italy seeks to manage the country's traditional anchorage in the Euro-Atlantic alliance with the pull of Chinese money. It sheds light on why the populist government in Rome defied the US –Italy's most important ally– to sign the MoU at a time of growing US-China rivalry. It also discusses the position on these issues of Italy's new coalition government between the M5S and the centre-left Democratic Party formed at the end of August 2019.

Italy and the East-West divide

Italy has traditionally been caught in the East-West divide. With its unique geographical location in the middle of the Mediterranean Sea, Italy held a privileged geopolitical role during the Cold War, making it possible for Rome to benefit from the continued interest and support of the US, while maintaining a good relationship with the Soviet Union. Italy's foreign policy oscillated thus between the East and the West, and domestically between communist and anti-communist political forces. During the Cold War, all Italian governments considered the country a bridge between the East and West and pursued open dialogue and economic partnerships with both the US and the Soviet Union.

In the post-Cold War era, Italy began reaching out to China, seen as an emerging economic powerhouse whose giant market could be a boon for export-oriented Italian companies. The first centre-right government led by Silvio Berlusconi in 1994 reinforced ties with Beijing by organising several high-level business visits to China. After Romano Prodi became Prime Minister of Italy in a centre-left coalition in 1996, he led a massive mission to Beijing bringing along over 100 companies to promote joint ventures in various fields such as mechanics, chemistry, food, textiles, fashion and banking. Throughout the 1990s and 2000s both centre-right and centre-left governments were attracted by China for its economic potential, while remaining firmly committed to NATO and the military alliance with the US. Rome is an important member of NATO, hosting in its ports the US fleet that patrols the Mediterranean.

With the launch of the BRI in 2013 –whose maritime end-point is the Mediterranean– Italy has regained a new 'geo-strategic' centrality, at least in the eyes of Chinese leaders who in the last years have increasingly focused on the Mediterranean Sea, a region that had been previously largely overlooked by Chinese foreign-policy makers. It was in the context of this newly-found role in China's massive infrastructure project that Paolo Gentiloni –Italy's former Prime Minister of a centre-left coalition government– attended the first Belt and Road Forum in Beijing in May 2017, the only leader of a G7 country and of a big EU member state to do so.

3 US Department of Commerce, International Trade Administration, *Italy – Market Overview*, https://www.export.gov/article?series=a0pt0000000PAu5AAG&type=Country_Commercial__kav.
4 *Ibid*

Italian populists and the Memorandum of Understanding

It is, however, with the populist government of the M5S-League (in power between June 2018 and August 2019) that the country broke ranks with Brussels and Washington and officially endorsed China's BRI. An 'Italy First' ideological approach together with fear of not being able to finance the country's huge debt in the future convinced Italian populists to side with China, regardless of whether this would break G7 and EU unity and drive a wedge inside the Euro-Atlantic alliance.

By endorsing the BRI the populist government in Rome hoped to obtain more market access in China for Italian companies and Made in Italy products.

Italian populists have not always been pro-China. During the electoral campaign for the parliamentary elections of March 2018, both the anti-establishment Five Star Movement (M5S) and the far-right League used anti-China rhetoric to woo blue-collar workers and the impoverished middle class, using themes reminiscent of Trump's presidential campaign in 2016. Yet things began changing from the Summer of 2018, as Italy's populist government looked for additional resources to follow through on costly electoral pledges, namely the flat tax for the League and the universal basic income for the M5S. Italy's Economy Minister Giovanni Tria made his first trip abroad to China in August 2018, exploring whether Beijing would be willing to help Italy economically. Luigi di Maio, head of the M5S (the senior party in the coalition) and Vice-Premier and Minister for Economic Development, first suggested signing a MoU during a visit to China in September 2018.

By pushing forward heavy spending plans, Italy's populist government sparked a spat with the EU in December 2018, pushing up bond yields and making it more costly for Italy to refinance its huge public debt, in a situation characterised by uneasiness among investors about the possible impact of weaker growth on Italy's high debt/GDP ratio. Italy risked further downgrading of its credit status by the rating agencies and Italian populists thus bet on China to continue buying Italian bonds. Moreover, by endorsing the BRI –a move that has undoubtedly sent a friendly political message to Beijing– the populist government in Rome hoped to obtain more market access in China for Italian companies and Made in Italy products, and more Chinese investments in Italy under the BRI framework.

The MoU with China found support not only among M5S lawmakers but also within Matteo Salvini's League (the junior party in the coalition). For instance, Michele Geraci, Undersecretary of State in the Ministry of Economic Development with responsibility for international trade and investment and a League member, was the main supporter of closer ties with Beijing, a stance that he also signalled by creating and leading Task Force China, established with the stated goal of becoming China's privileged partner on the BRI. Fluent in Mandarin, Geraci had lived in Shanghai for many years until he was appointed to the post of Undersecretary of State.

Within the Italian government there were also critical voices on the MoU with China. Matteo Salvini was intent on consolidating ties with the Trump Administration and wanted to be seen as pro-US and pro-NATO. Giancarlo Giorgetti, the former powerful Undersecretary of State under Prime Minister Conte, and Guglielmo Picchi, former Undersecretary of Foreign Affairs and Salvini's advisor on foreign policy, voiced reservations about the signing of the MoU for the implications that closer ties with Beijing could have for NATO and the transatlantic alliance. The split inside Italy's populist coalition on the MoU became evident with regard to Huawei –a split that continues today, however, inside the current centre-left government–.

Huawei

Since last year, the US has been putting pressure on Italy to ban Huawei. The US Ambassador in Rome, Lewis Eisenberg, has made several declarations to that respect. On Friday 22 February 2019, Eisenberg said that 'Huawei poses risks for Italy's national security and that of its partners'. However, Italy seems to be in favour of a softer line on Huawei, though the previous populist –and the current centre-left– government is split on the issue. On the one side, there is the M5S, which thinks that the issue is too complex and that simply banning the company will not be the right approach. On the other, there is the centre-right coalition led by Matteo Salvini and the majority of the centre-left Democratic Party (PD), who fully share Washington's concerns about possible infiltrations of foreign entities in 5G networks, including cyber-theft and cyber-espionage allegedly linked to Beijing.

In August 2019 the first act of the newly formed centre-left government between the M5S and the PD was to activate the so-called 'golden power' –a mechanism based on a 2012 law which allows the Italian government to intervene to have a say in certain strategic decisions– to rein in the influence of Huawei in Italy. The so-called 'golden power' relates to special powers the government can exercise in order to guarantee the country's national security. To determine whether an inbound investment could have an impact on internal security and public order, the government can now take into consideration the eventuality that the foreign investor is really controlled by a third-country government This is clearly aimed at Chinese state-owned enterprises as well as companies like Huawei, which have close connections with the Chinese Communist Party.

Italian intelligence services have not found evidence, so far, of malicious Chinese state cyber activity through Huawei. Moreover, according to the pro-China elements inside the government, banning Huawei from Italy would have serious economic consequences. The Chinese company is a partner of three mobile operators in Italy (Wind-Tre, Vodafone and TIM), covering between 20% and 30% of their mobile networks and 10% of the landlines of Tim (Italy's main phone operator). In recent 5G mobile communications auctions, Huawei was a leading candidate to supply 5G equipment to mobile networks in various Italian cities, including Milan, where Huawei is a partner of Vodafone. It should be noted that that one of Huawei's most important R&D centres abroad is located in Milan. The current Italian government is thus trying to square the circle, ie, meeting US requests half-way but without jeopardising economic ties with China.

Conclusions

Since the Parliamentary elections of March 2018, subsequent Italian governments have sent different messages to the three main powers: the US, the EU and China For instance, in the run up to the signing of the MoU, Italian politicians requested that the document to be signed with Beijing would include clear reference to Western norms and principles as well as to the EU's connectivity strategy published in September 2018. Chinese leaders accepted to underwrite such a text for the sake getting Rome on its side, at a moment when Brussels was intent on adopting a tougher stance against Beijing.

The same days of the visit of President Xi Jinping in Rome and the signing of the MoU, the European Council on 21-22 March 2019 adopted a series of initiatives aimed at reining in China's influence in Europe. The EU accused China of preserving its domestic market for its national champions by restricting European company access to it, subsidising local competitors and failing to protect intellectual property rights. Brussels also urged EU member state to fight take-overs by Chinese state-backed companies and approve a new piece of legislation aimed at limiting China's penetration in key industrial and strategic sectors in the bloc: the screening mechanism.

During the vote on the draft text of the screening mechanism in the EU Council on 5 March 2019, 26 of 28 EU members approved it, including countries such as Hungary and Greece, traditionally considered close to Beijing's interests. The two outliers were the UK, which is halfway out of the bloc, and Italy. In so doing, the populist coalition in Rome sent a friendly message to Beijing, reversing the position of the previous centre-left Gentiloni government, which had joined Germany and France in sending a letter to the European Commission in February 2017 to back calls for an EU-wide investment screening mechanism. However, the same Italian government that signed the MoU and abstained from the draft text of the screening mechanism eventually supported the Council Conclusions on 22 March 2019, including the new, tougher approach towards China –a sign that Italy's China policy has been quite volatile in recent times–.

The current M5S-Democratic Party coalition government (formed at the end of August 2019) has reiterated Italy's commitment to the traditional Euro-Atlantic alliance, receiving the support of US President Donald Trump. Still, Italy's long-standing tradition of seeking to be a bridge between the West and the East is likely to continue for the foreseeable future.

LATVIA: BALANCING EU DEVOTION WITH A STRONG TRANSATLANTIC RELIANCE

LATVIA: BALANCING EU DEVOTION WITH A STRONG TRANSATLANTIC RELIANCE

Una Aleksandra Bērziņa-Čerenkova[1]
Latvian Institute of International Affairs, Riga Stradiņš University

Abstract

Latvia's exchanges with China have increased since 2013, but with the economy as the primary driver, there is no political alignment with Beijing at present and it is unlikely in the future. The US is seen as a security guarantor and a strategic ally. Against the backdrop of the US-Chinese trade war, Latvia approaches each of the partners separately, waiting and seeing while issuing no harsh statements that might set off either side. The EU and the transatlantic partnership are the pillars of Latvian foreign policy and Latvia tends to support a more cohesive EU-China policy. Several EU-China topics are more visible on the Latvian agenda than others, for instance, the idea of rethinking the '17+1' cooperation to include a unified European voice. Latvia has been in the passenger's seat on several issues of the EU-China agenda, such as equal market access and a joint EU investment screening framework.

After the annexation of Crimea in 2014, along with other Baltic countries Latvia advocated a more active NATO presence in the region.

Latvia between Washington and Beijing: security first

Latvia's motivation behind its engagement with the US significantly differs from that of its relation with the People's Republic of China (PRC). Cooperation with the US is considered to be crucial to Latvian statehood. The US is historically perceived as a counterbalance to Russia in the region, as it never recognised the annexation of the Baltic states,[2] safeguarded Baltic financial assets and kept Baltic diplomatic missions running throughout the Cold War. Moreover, since Latvia joined NATO in 2004, the US became Latvia's primary security provider. After the annexation of Crimea in 2014, along with other Baltic countries Latvia advocated a more active NATO presence in the region. As a result, after the 2016 Warsaw Summit, NATO's enhanced forward presence in Estonia, Latvia, Lithuania and Poland was established, with the US as one of the framework nations.[3] Even though after the election of Donald Trump the US support to NATO commitments was unclear and Trump's stance on Russia caused unease among Latvia's politicians and people alike,[4] the region's security is synonymous with US involvement. As an example, Latvia reacted to US demands and raised its defence budget to 2% of GDP,[5] spending €576 million on defence in 2018, roughly double the amount of 2015.[6]

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1 The author would like to thank Kristiāna Purva for her input during the preparation of this chapter.
2 'Welles Declaration, Department of State Press Release, 'Statement by the Acting Secretary of State, the Honorable Sumner Welles', 23/VII/1940, History and Public Policy Program Digital Archive, NARA, RG 59, http://digitalarchive.wilsoncenter.org/document/144967.
3 'Boosting NATO's presence in the east and southeast', NATO, https://www.nato.int/cps/en/natohq/topics_136388.htm.
4 M. Birnbaum (2016), 'Fearing closer Trump ties with Putin, Latvia prepares for the worst', *The Washington Post*, 18/XI/2016, https://www.washingtonpost.com/world/europe/fearing-closer-trump-ties-with-putin-latvia-prepares-for-the-worst/2016/11/18/f22b3376-ab54-11e6-8f19-21a1c65d2043_story.html.
5 Only six EU nations have currently met this goal, three of them being the Baltic states.
6 M. Andžāns (2019), 'Latvijas aizsardzība 2019.gadā – vairāk iespēju un arī izaicinājumu', *Latvijas Ārējā un Drošības politika*, Latvijas Ārpolitikas Institūts, p. 96.

Latvia became the first Baltic country to sign a BRI Memorandum of Understanding (MoU) during Li Keqiang's visit to Riga in November 2016.

The main driver of involvement with China is economic: diversification of the transit industry, increasing exports and attracting investment. In 2018 Latvia's exports to China reached over €174 million –32% more than in 2015, making up 1,2 % of Latvia's total exports, but still greatly behind its €547,2 million in exports to the US.[7] The growing visibility of China is a recent development, stemming from its increased activity in the Baltic region since 2012-13 through such platforms as China's cooperation with the Central and Eastern European Countries ('17+1') and the Belt and Road Initiative (BRI). Latvia became the first Baltic country to sign a BRI Memorandum of Understanding (MoU) during Li Keqiang's visit to Riga in November 2016.

The biggest investment project, the Life Science and Technology Centre run by a subsidiary of the Chinese BGI Group, is involved in a patent war with the US-based genetics company Illumina Inc,[8] potentially pulling it into Sino-US friction. Latvia is also being increasingly affected by the security issues that arise between China and NATO, including the debate on Huawei's role in 5G networks. The Minister of Foreign Affairs, Edgars Rinkēvičs, stressed the need for a common position on the 5G issue both in the NATO Foreign Ministers' Council and the EU Foreign Affairs Council framework. At the same time, he pointed out that there is 'an opportunity to develop good cooperation without sacrificing security interests and cooperation with other countries', signalling a hope for a more nuanced EU approach than simply following Trump's Huawei ban.[9] A similar position is expressed by the Ministry of Defence: 'Banning one product does not solve the problem'.[10] A non-direct action to mitigate the Huawei risk has been taken by introducing amendments to the Regulation of the Cabinet of Ministers No 442, in January 2019, that allow the national security authorities and information technology security incident prevention authorities to develop recommendations on the application of certain information and communication technologies.[11] The document does not outline either the countries of origin of such technologies or the producing companies.

A similar wait-and-see attitude with no harsh statements that could set off either side persists in the private sector. One of Latvia's three mobile network operators, Bite Latvia, a Huawei partner on 5G network introduction, made a statement in February 2019 that it had no reason to doubt Huawei's credibility *at that time*.[12] The statement, on one the hand, expressed support for Huawei but, on the other, provided the company with an exit strategy if 'reasons for doubt' were to arise.

7 'Latvia trade in goods with USA in 2018', 'Latvia trade in goods with China in 2018', International trade in goods and services based on UN Comtrade data, https://comtrade.un.org/labs/dit-trade-vis/?reporter=428&partner=156&type=C&year=2018&flow=2.
8 'Illumina sues BGI affiliates over sequencing patents in US, Switzerland, Turkey', *Genomeweb*, 28/VI/2019, https://www.genomeweb.com/sequencing/illumina-sues-bgi-affiliates-over-sequencing-patents-us-switzerland-turkey.
9 'Rinkēvičs: Būs jālemj, cik tālu valsts pārvaldē var izmantot viena vai otra operatora tehnoloģijas', TVNET/LETA, 23/VI/2019, https://www.tvnet.lv/6699849/rinkevics-bus-jalemj-cik-talu-valsts-parvalde-var-izmantot-viena-vai-otra-operatora-tehnologijas.
10 Quote from Ministry of Defence spokesperson Sandra Brāle in F. Lastovskis (2019), 'ASV brīdinājumu nesadarboties ar "Huawei" Eiropā pagaidām nesadzird, tostarp Latvijā', Delfi.lv, 19/II/2019, https://www.delfi.lv/bizness/tehnologijas/asv-bridinajumu-nesadarboties-ar-huawei-eiropa-pagaidam-nesadzird-tostarp-latvija.d?id=50839499.
11 'Vispārīgie jautājumi 4.1 Kārtība, kādā tiek nodrošināta informācijas un komunikācijas tehnoloģiju sistēmu atbilstība minimālajām drošības prasībām', Ministru kabineta noteikumi, nr. 442, 28/VII/2015, amended 15/I/2019, https://likumi.lv/ta/id/275671-kartiba-kada-tiek-nodrosinata-informacijas-un-komunikacijas-tehnologiju-sistemu-atbilstiba-minimalajam-drosibas-prasibam.
12 'Bite Latvija will not suspend its partnership with Huawei', LETA/TBT, 15/II/2019, https://www.baltictimes.com/bite_latvija_will_not_suspend_its_partnership_with_huawei/.

A certain unhappiness about the current US political direction is noticeable, as it contributes to the unpredictability of the international system and could take a toll on Latvia's economic development in the long run: 'We do not intervene in [US-China] interactions, trying to keep the relations with both countries absolutely separate. But Latvia needs good US-China relations'.[13] Still, the role of the US is that of being the main security guarantor and historical ally, but in cooperating with China the economic motivation persists with no alignment with Beijing being present. In the context of Sino-US rivalry, Latvia will prioritise a strong NATO and good relations with the US over strong economic ties with China.

Latvia between Brussels and Washington: a tricky exercise

Washington's friction with Brussels is a far more complicated case for Latvia than US-China issues, as both the EU and the transatlantic partnership are the pillars of Latvian foreign policy.[14]

The general foreign affairs approach of Latvia is to act in concert with a wider EU position. According to Kalniņš, 'We are not fully satisfied with the position of the US not just vis-à-vis China, but also vis-à-vis other countries, but we upload these issues to the EU level'.[15]

The Iran nuclear deal is a case in point, with Latvia siding with the EU, not in support of the US –following the 6 June 2018 visit of the Assistant Secretary for Terrorist Financing in the US Department of the Treasury, Marshall Billingslea, to Riga, during which he tried to rally Latvia's support against the activities of the European Investment Bank in Iran, Latvian government officials spoke exclusively in line with the EU official position.[16]

The EU-US-China trade disputes rank high on the Latvian foreign policy agenda. Any challenge to the existing system, be it the US position in the trade dispute or the 'inability of the WTO to deal with global-level barriers to trade put up by China'[17] is followed with unease, as Latvia needs both an EU-US free-trade agreement and a strong WTO. A strong WTO is crucial to Latvia: firstly, it sets a framework with WTO members with whom Latvia has no bilateral trade agreements; secondly, it provides a last resort in major trade dispute resolution; and, finally, the WTO accession talks serve as a platform to push for trade access in candidate countries with which Latvia trades, such as Belarus.

13 Interview with Ojārs Ēriks Kalniņš, Vice-Chair of the Foreign Affairs Committee of the Saeima of the Republic of Latvia.
14 'Annual Report of the Minister of Foreign Affairs on the accomplishments and further work with respect to national foreign policy and the European Union 2018, Ministry of Foreign Affairs', https://www.mfa.gov.lv/images/ministrija/Annual_Report_of_the_Minister_of_Foreign_Affairs_2018_en.pdf.
15 Interview with Ojārs Ēriks Kalniņš, Vice-Chair of the Foreign Affairs Committee of the Saeima of the Republic of Latvia.
16 'ASV lūdz Latvijas ietekmi ES "Irānas jautājumā"; Rīga sliecas būt Briseles pusē', Latvijas Sabiedriskie Mediji, 7/VI/2018, https://www.lsm.lv/raksts/zinas/latvija/asv-ludz-latvijas-ietekmi-es-iranas-jautajuma-riga-sliecas-but-briseles-puse.a281237/.
17 "Annual Report… *op. cit.*

In some cases, Latvia is clearly sharing Washington's position against other EU member states: on the Nord Stream 2 project, the Minister of Foreign Affairs, Edgars Rinkēvičs, made it clear that 'energy is not only a matter for European security but also a question of transatlantic relations'.[18] Indeed, security is embedded into Latvia's transatlantic outlook, as exemplified by the national position regarding stronger EU defence cooperation: Latvia supports EU security and defence initiatives and is one of the founding states of Permanent Structured Cooperation (PESCO),[19] but is against any duplication of NATO. European strategic autonomy is problematic for the Baltic states, as without Transatlantic involvement the security guarantees for the region would not be sustained by the necessary capabilities.[20]

Latvia will act within the framework of the official Brussels position in the future as well, but is unlikely to become a proactive player in shaping the EU position due to both its limited capacity as well as to its reluctance to challenge the US. However, the Baltic states are likely to voice disapproval over any future projects involving other EU members that could increase Russia's leverage in the region or lead to a weaker NATO position.

Latvia between Brussels and Beijing: inertly upholding the EU's position

After the formation of the new government in January 2019, a stronger support for a joint EU position vis-à-vis China, the so-called '27+1' approach, was advocated by the Prime Minister Krišjānis Kariņš, and the engagement in the '17+1' format diminished somewhat. Kariņš has said that although '17+1' was interesting for Latvia, 'it would be better to have a "27+1" that would include all of Europe, which is now being debated in the EU Council'.[21] Kariņš did not attend the 8th CEEC-China Summit in Dubrovnik, Croatia, on 11 April 2019 due to a confidence vote at home, leaving the representation of Latvia in the hands of the Minister of Foreign Affairs, and Kariņš's absence during the Summit did not go unnoticed by either the Chinese side or at home. From Latvia's point of view it is important to ensure that China acts in accordance with the rules of the international trading system. Even though China is perceived as a driving force of the global economy, Kariņš emphasises that the EU can develop its economic growth in other ways that do not involve hastily breaking down barriers with China.

Although the Latvian position on China is generally in line with that of Brussels, there are several topics on which Latvia has not been as outspoken, as they do not appear to be a national priority.

One of these topics is the issue of ensuring an equal market access in China for EU companies. Although passively on the EU side, Latvia is not expected to become a strong equal market access advocate. Companies find it hard to export to China and are having trouble entering the market –Latvia's FDI to China in 2018 did not even amount to €1 million– but they blame the small

18 'Nord Stream 2 can sour transatlantic relations, says Foreign Minister', Latvijas Sabiedriskie Mediji, 27/VIII/2018, https://eng.lsm.lv/article/economy/economy/nord-stream-2-can-sour-transatlantic-relations-says-foreign-minister.a290184/.
19 'Latvija pievienojas ES Pastāvīgam strukturētās sadarbības (PESCO) ietvaram drošībā un aizsardzībā', Ministry of Defence of the Republic of Latvia, 13/XI/13, 2017, https://www.mod.gov.lv/en/node/6369.
20 M. Šešelgytė (2019), 'The EU and NATO in Baltic Sea Region: effective partnership or unnecessary competition?', Andris Sprūds, Māris Andžāns & Sandis Šrāders (Eds.), Riga Conference Papers 2019, Latvian Institute of International Affairs, Riga.
21 A. Kārkluvalks (2019), 'Robežas, tiešmaksājumi un Ķīna – Kariņš par Eiropas vienotības problēmām', Delfi, 3/V/2019, https://www.delfi.lv/news/arzemes/robezas-tiesmaksajumi-un-kina-karins-par-eiropas-vienotibas-problemam.d?id=51049299.

scale of the economy, insufficient experience and the lack of historical links rather than systemic and political factors. Therefore, the business community does not pressure the government to put market access on the national political agendaThe second topic is the EU framework for screening investments. The new EU framework is perceived to be a positive development, although any hardening of the current consultative structure is seen with unease, as it could be used as an instrument for unfair competition and protectionism. Latvia already established an investment screening mechanism for strategic sectors in 2016, arguably as a measure to control Russian investments, but the mechanism can equally be applied to China. Therefore, a new layer of screening is not considered particularly necessary for Latvia, but is supported as a European unifying initiative.

To conclude, for Latvia the EU is about identity and the transatlantic partnership is about state survival and security, whereas China is about diversification of markets and outreach beyond regional cooperation, making it the least strategic of all three.

AIMING TO AVOID PAINFUL DILEMMAS: THE NETHERLANDS AND US-CHINESE RIVALRY

AIMING TO AVOID PAINFUL DILEMMAS: THE NETHERLANDS AND US-CHINESE RIVALRY

Frans-Paul van der Putten & Monika Sie Dhian Ho[1]
Clingendael Institute

Abstract

Economically the Netherlands is the most globalised country in the EU. As a result, it feels the effects of the US-Chinese trade conflict and the trend towards the decoupling of regional economic blocs at an early stage. In response to the US-China tensions, the Dutch government tends to keep a low profile. It is notable that while the US is the main source of pressure, the response of the Netherlands appears to focus mainly on China, in particular on potential risks to Dutch economic security resulting from Chinese policies. The emergence of China as a great power, and the fact that the US has growing expectations relating to it, are changing the long-standing Dutch approach to the EU. Its position has moved away from focussing primarily on the internal market, to allow a greater role for security considerations, and emphasising the role of the EU in supporting its member states to protect a European way of life.

Within the EU, the Netherlands is one of the oldest and most faithful allies of the US. At the same time, however, the Netherlands has become China's second-largest trade partner in the EU, especially due to the economic triangle that also comprises Germany. Increasing tension between the US and China, with conflicting demands of both major powers vis-à-vis third countries, therefore quickly takes the form of painful dilemmas in the Netherlands. Moreover, since economically the Netherlands is the most globalised country in the EU, it feels the effects from the US-China trade conflict and the trend towards decoupling of regional economic blocs at an early stage.[2]

The Netherlands and the US: 'better than ever'

A strong relationship with the US has been one of the continuous lines running through Dutch diplomatic history. The relationship goes back to the American Revolution and is based on common political values and cultural elements, as well as economic and –particularly for the Netherlands– security interests. Moreover, the Netherlands has always pursued strong ties with the US (and, before that, the British) hegemon as a counterbalance to the aspirations of France and Germany on the European continent, and later on to a European integration project dominated by Franco-German interests. US hegemony has also supported the development of a liberal multilateral order that was considered conducive to Dutch interests as an open trading country.

When Prime Minister Mark Rutte visited the White House in July 2019, President Trump claimed that the relationship with the Netherlands was better than ever. These words, nevertheless, cannot conceal the friction in the transatlantic relationship. The Dutch see Trump's America First policy as an assault on multilateralism and symptomatic of the demise of US leadership on the global stage. The Trump Administration has justified these steps as a policy of unilateralism to correct

1 The authors are grateful to Mirela Petkova for contributing to this chapter.
2 Milos Popovic, 'Economic Globalization in 2015', http://milosp.info/maps/full/globalization.png.

In 2018 the Dutch parliament requested that the government produce a China strategy.

perceived trade imbalances and address free-rider problems in security and defence.[3] The Dutch level of defence spending has been a particular cause of annoyance: NATO-members agreed in 2014 to increase their expenditure up to 2% of GDP within 10 years, whereas the prognosis is that the Netherlands will spend 1.3% of its GDP by 2024. While America's bitter complaints regarding Dutch defence spending have implicitly been acknowledged by the Dutch as reminders of promises that the government had made itself, other comments on Dutch foreign policy choices by US representatives have been rejected. For example, the threat of potential US sanctions against Dutch companies that participate in Nord Stream II.

Key strategic questions for the Netherlands arising from these frictions with the US are whether the multilateral order can be upheld with the EU and like-minded states like Japan, Canada, Australia, South Korea and others, and whether 'EU sovereignty' in the field of security and defence as well as the international position of the euro can be strengthened in order to become less dependent from the US. A specific strategic question for the Netherlands will be how to react to President Trump singling out Germany for particular criticism and the anti-US backlash this is having in the Netherlands' neighbouring and most important trading partner. The fact that close Dutch economic relations with Germany intensify Dutch relations with China as well adds an extra sensitive dimension to this strategic question.

The Netherlands on China: 'open where possible, protect where necessary'

Dutch policy towards China has traditionally been guided primarily by economic interests. China is a major trading partner: a quarter of the containers that arrive in the port of Rotterdam come from China. For the latter, the Netherlands is relevant not only as an economic partner but also due to the active Dutch role in the EU and other international organisations. China considers the Netherlands an important supporter of multilateralism and opponent of protectionism.

After the 1989 Tiananmen crisis, the promotion of human rights became an important theme in Dutch policy on China as well. In the past few years, security and strategic-economic perspectives have gained importance in the Dutch government's view on China. The increase in Chinese direct investment, especially around 2016 in the semiconductor domain, has raised questions regarding its potential negative effects on national security. Other areas of concern for the Dutch government include economic competition, espionage, political influencing and (in some respects) China's role in global governance. In 2018 the Dutch parliament requested that the government produce a China strategy, which it duly submitted in May of the following year. The strategy, as outlined in the resulting policy paper on China, is fundamentally based on the idea of 'open where possible, protect where necessary'.[4] The Dutch parliament, which has long been vocal regarding the human rights situation in China, responded to the China strategy by demanding that the government significantly expand the paper's human-rights section.

3 Peter van Ham (2018), 'Trump's impact on European security. Policy options in a post-Western World', January, https://www.clingendael.org/sites/default/files/2018-01/Report_Trumps_Impact_on_European_Security.pdf.
4 Ministerie van Buitenlandse Zaken (2019), 'Nederland-China: een nieuwe balans', May, https://www.government.nl/documents/policy-notes/2019/05/15/china-strategy-the-netherlands--china-a-new-balance.

Conflicting pressure

The US Ambassador to the Netherlands, Pete Hoekstra, has played a significant role in bringing US views and requests to the Netherlands, in several interviews as well as in a public lecture, partly devoted to the common challenges posed by China[5] to the US and the Netherlands, and the common values and interests they must protect and defend. Referring to recent US-Dutch skirmishes, the Ambassador warned that his government was 'not bluffing'. In his view, the Netherlands' China policies are even more politically salient than Dutch defence spending falling short, or US objections to Nord Stream II being ignored. The Ambassador's remarks cast a shadow over the strategic choices the Netherlands faces in the context of conflicting pressure from the US and China.[6] Hoekstra and other US politicians, including the Secretary of State, Mike Pompeo, have campaigned actively to convince actors in the Netherlands not to involve the Chinese tech giant Huawei in the development of the future 5G-network, warning that if the US and the Netherlands make different choices in this respect, cooperation between intelligence agencies would be impeded in the future.[7]

Pressure from the Chinese government is less explicit. China's 2018 policy paper on the EU used the word 'should'[8] in relation to various topics: supporting the reunification of mainland China with Taiwan; no interference in Hong Kong, Macau, Tibet, Xinjiang or human rights issues in China; ending the arms embargo; easing high-tech export controls; and –in reference to the European media– opposing 'fake news and illegal online content'.[9] Most of these relate to what China regards as domestic issues. Only three of China's demands are relevant also for relations between EU member states (including the Netherlands) and the US. The first is the long-standing demand to end the EU arms embargo against China. In 2004-05, when the EU was considering ending the embargo, the US made it clear that it was unacceptable because it would affect the military balance of power with China. Although the request is currently less prominent in China's official communications with the EU, it remains part of China's list of demands and therefore a point of attention for the Dutch government. The second is the Chinese desire to ease export controls on advanced technology, which conflicts with US policy on technology transfers. This more recent demand reflects the changing nature of modern weapons (more high-tech and more dual use). As the arms embargo becomes less relevant, the importance of high-tech export controls grows. The third is the demand to support the 'peaceful reunification' of Taiwan with China. The status of Taiwan is a major issue in Sino-US relations. China insists that no third parties should support Taiwan's capacity to resist reunification. In 1980 the Chinese government downgraded diplomatic ties with the Netherlands in response to the sale of two Dutch submarines to Taiwan. This partial disruption in the bilateral relationship, which ended in 1984, continues to serve as a warning to the Netherlands that interference in China-Taiwan relations is not acceptable. While these issues constitute potential sources of friction with China, and are therefore relevant to Dutch policymaking, the Netherlands is not experiencing specific instances of Chinese pressure in any of these three areas.

5 Stichting Machiavelli (2019), 'Remarks – Ambassador Pete Hoekstra', 13/II/2019, https://stichtingmachiavelli.nl/wp-content/uploads/2019/01/Machiavelli-lezing-Pete-Hoekstra-13-februari-2019.pdf.
6 Marno de Boer (2019), 'Doe geen zaken met het Chinese Huawai, waarschuwt Amerikaanse ambassadeur Pete Hoekstra', 20/III/2019, https://www.trouw.nl/nieuws/doe-geen-zaken-met-het-chinese-huawai-waarschuwt-amerikaanse-ambassadeur-pete-hoekstra~bcd0241d/.
7 US News (2019), 'US top diplomat presses Dutch to be tough on China over tech', 3/VI/2019, https://www.usnews.com/news/world/articles/2019-06-03/us-diplomat-pompeo-holding-talks-with-dutch-government.
8 应 in the Chinese version.
9 Xinhua (2018), 'Full text of China's Policy Paper on the European Union', 18/XII/2018, www.xinhuanet.com/english/2018-12/18/c_137681829.htm.

Currently it is the US rather than China that is an active source of pressure.

The new Chinese Ambassador to the Netherlands, Xu Hong, has taken the habit of making public appeals. In May 2019, at the start of his tenure, he published an advertisement in a Dutch newspaper.[10] In his text Xu emphasised a bilateral relationship based on shared views – in this case on multilateralism, free trade and climate policies. The implicit message was that China and the Netherlands have similar positions regarding a number of issues on which the Netherlands and the US have conflicting policies. Ambassador Xu also criticised 'a country' (the US) for invoking national security as an excuse to harm the interests of 'a Chinese high-tech firm' (Huawei). He then called on the Netherlands to remove obstacles to international scientific and technological exchanges. In other words, the Netherlands should not exclude Huawei or ZTE from the market for 5G-contracts and it should be supportive of high-tech cooperation with China. In August 2019 Xu published an op-ed in another Dutch newspaper, in which he wrote that the US and other countries are playing a 'shameful role' in Hong Kong by encouraging 'troublemakers' to further aggravate the situation, explicitly mentioning the US.[11] This may be regarded as a subtle warning to the Netherlands not to criticise the Chinese government's policies on Hong Kong or to speak positively about the demonstrators in that city. Still, while demands from the US and China are conflicting in several areas, currently it is the US rather than China that is an active source of pressure.

Dutch policymakers and companies are becoming more aware of the potential risks of US-Chinese friction. The Netherlands is highly dependent on both the US and China, but –due to the security role played by the US and its resulting political influence in Europe – more so on the US than on China. US expectations and demands are making China a major foreign policy topic for the Netherlands. The main direct risks of US-Chinese rivalry as perceived in the Netherlands relate to both economic (ruptured economic links with China and/or the US) and strategic issues (the diminished functionality of NATO). Perceived indirect risks include reduced global trade and a diminished effectiveness of global governance.

The Dutch response

The government of the Netherlands is generally cautious on sensitive issues in its relations with both the US and China, especially if it perceives conflicting demands from the two major powers. The Dutch policy paper on China of May 2019 provides no clear strategy on how to deal with Chinese involvement in 5G or on the Belt and Road Initiative (BRI). On 5G the Dutch government has been waiting for an EU-wide approach to emerge and for other member states to make explicit their position. Moreover, the government has aimed to depoliticise and objectivise the issue by framing it as a technical security issue rather than as a geopolitical one. The government is currently preparing a set of technical criteria for suppliers of 5G equipment that do not involve references to any specific country. Regarding BRI, the Dutch attitude can be defined as a cautious engagement. The government was represented by its top official for customs during the first and second Belt and Road Forums. The Netherlands does not have a memorandum of understanding

10 The article was titled 'De relatie tussen China en Nederland langs de juiste weg blijven bevorderen' ['Promoting the relationship between China and the Netherlands along the right way']. It was published in NRC as a paid advertisement on 25/V/2019.

11 Het Financieele Dagblad (2019), 'Chinese ambassadeur Nederland: het complot om Hongkong te destabiliseren, is gedoemd te mislukken', 7/VIII/2019, https://fd.nl/cookiewall?target=%2Fopinie%2F1311024%2Fhet-complot-om-hongkong-te-destabiliseren-is-gedoemd-te-mislukken.

on BRI cooperation with China, but in the past few years the Chinese government has on several occasions signalled to the Dutch government that it would highly welcome such a move.[12]

In its policy paper on China the government mentions the trans-Atlantic alliance without taking a position regarding US-Chinese geopolitical tension. Its approach to navigate the friction and avoid having to choose sides is to maintain a low profile. The Netherlands does this by refraining from being explicit on the relevance of the US for the Netherlands' China strategy by postponing controversial decisions and by framing some issues as technical and country-neutral rather than as geopolitical issues. The Netherlands has also strengthened its capacity to address the potential risks to Dutch economic security (a notion that relates to strategic dependence, vital economic processes and information integrity) by creating an interdepartmental China task force and a sub-body of the cabinet (ie, at the ministerial level) on economic security. The growing emphasis on security issues in the Netherlands' China policy has resulted in additional government control in two areas that are sensitive to relations with both China and the US: technology transfers to China and infrastructure investments by Chinese entities. While the Dutch government has long promoted openness to foreign investment, national security is now becoming a (still limited) constraint on this traditional approach. After the European Commission introduced its proposal for an EU coordination mechanism for investment screening in 2017, the Dutch government initially did not support the idea. However, in 2018 the government changed its position.[13]

The emergence of China as a great power and the fact that the US has growing expectations and demands from third countries that relate to China are changing the long-standing Dutch approach to the EU. The Dutch government believes that a strong EU is indispensable to address risks relating to the rise of China, including US-Chinese tension. Its position within the EU has moved away from focusing primarily on the internal market, to allow a greater role for security considerations, and emphasising the part played by the EU in supporting its member states to protect a European way of life. The Netherlands is promoting a more integrated and strategic approach to the rise of China at the European level, for instance in the form of a Vice-Presidency for economic security in the European Commission.

While the US is the main source of pressure, the Dutch response is aimed mainly at China. This results primarily from concerns relating to China's behaviour. However, having a firmer grip on issues that involve China's influence is potentially also a way for the Dutch government to strengthen its position regarding the US without confronting it openly or without necessarily giving in to American pressure.

12 In 2018 the two countries did sign an MoU on economic cooperation in third countries that, however, does not mention the Belt and Road initiative.
13 No data is available on why and when the Netherlands changed its position.

POLAND: MANOEUVRING BETWEEN THE US AND EU WHILE NOT DECOUPLING FROM CHINA

POLAND: MANOEUVRING BETWEEN THE US AND EU WHILE NOT DECOUPLING FROM CHINA

Justyna Szczudlik
The Polish Institute of International Affairs

Abstract

Poland is maneuvering between the US and EU, while keeping the door open to cooperation with China. The US is the country's most important ally as it guarantees security against Russia. At the same time, Poland remains in the EU mainstream when it comes to its China policy and the People's Republic is still seen as a partner despite Poland's more cautious approach towards it. Poland's policy might be perceived as an attempt to play a role as a bridge between the US and China, but also to monitor relations with Russia, bearing in mind Trump's unpredictability, China's deepening ties with Russia and the expansion of the EU's selective engagement with the Russian Federation.

Towards Closer Transatlantic Alliance

The pillar of Poland's policy towards the US is security, and it is moving towards a closer transatlantic alliance. The main reason is the threat from Russia. The latter's aggression in 2014 against Ukraine and its occupation of the Crimea reinforced Polish concerns related to other Russian action. The latter include the continuous enhancement of its military presence in the NATO vicinity (eg, the deployment of new missiles in Kaliningrad and large-scale exercises in the region), threats to Alliance members and cyber-attacks (eg, on Estonia). Poland is especially concerned about Russia's regional military superiority on NATO's eastern flank and the development of capabilities that might impede its reinforcement by other allies. Therefore, Poland has been both strengthening its own defence potential and calling for the comprehensive enhancement of NATO's deterrence of Russia. US involvement, as the major military power in NATO and the world, is essential.

Since 2017 around 4,500 US troops have been rotationally stationed in Poland. Polish goal has been to increase the numbers of these forces and ensure their continued presence.[1] The aim is to strengthen the credibility of US security guarantees and redress the regional military imbalance. Poland would ideally see more units stationed on a permanent basis, in addition to the finalisation of the construction of the US missile defence site at Redzikowo. Poland has also been purchasing US military equipment under major modernisation programmes (for instance, the Patriot air-defence system). Since joining NATO in 1999, strengthening ties with the US in the Alliance and on a bilateral basis has been a goal of each successive Polish government.

Just before Trump's election there was uncertainty in Poland about the new President's agenda due to his criticism of NATO (eg, suggestions of the conditionality of art. 5 on collective defence guarantees) and his desire to rapidly improve relations with Russia. But instead of criticising Trump, the current Polish government decided to strengthen its relations with the US even further than its predecessors. The result of these efforts was Trump's official visit to Poland in July 2017 to attend the 2nd Three Seas Initiative summit. The rationale behind the move was to make the US interested in the new initiative launched by Poland and Croatia in 2016, within the EU.

1 M. Terlikowski (2019), 'US-Poland Defense Cooperation Reinforced', *PISM Spotlight*, nr 33, 13/VI/2019.

Poland also intended to attract Trump's attention to Central and Eastern Europe. Then, in 2018, Poland's President Duda paid an official visit to the US and called for an increased and permanent US military presence in Poland. In June 2019 Duda visited the US again. As a result, the two Presidents signed a 'Joint Declaration of Defense Cooperation Regarding the US Force Posture in Poland'. Under the agreement, the US confirmed the enduring character of its military presence in Poland and pledged to increase it by 1,000 troops (including logistics, division headquarters, reconnaissance drones and special forces), while Poland was to invest in related infrastructure.[2]

Another security factor, connected with Russia but also a means to strengthen bilateral relations, is Polish-US energy cooperation. This includes joint opposition to the Nord Stream 2 project, which is perceived in Poland as a way to make Europe too dependent on Russian gas and to undermine Europe's security and energy solidarity. Poland's cooperation with the US in this domain also includes Poland's purchase of US LNG, despite a likely higher price. It is indisputable that the US is also Poland's political partner, with which it shares the same liberal values despite some recent differences between the two countries in that regard.

When it comes to certain issues in bilateral relations, it should be noted that for years there have been problems in granting US visas to Polish citizens. Nevertheless, in October 2019 President Trump announced that he had officially allowed Poland's inclusion in a US visa-waiver programme. Moreover, since Trump's term, there are apprehensions about US policy towards Russia and NATO, with fears of a possible change in the US President's approach. Further uncertainties that place Poland in an awkward position are Trump's relatively negative attitude towards the EU (trade friction), multilateral organisations and other multilateral commitments such as the Paris agreement or the JCPOA, but also China, which means that there is US pressure on Poland to tighten its policy towards the PRC.

A more cautious approach to China

The main pillar of Poland's policy as regards the People's Republic of China (PRC) is economic cooperation. China, as a huge market, is seen as a potential business partner both in terms of trade and investments. The general view about cooperation with China remains unchanged, especially since 2008 when Poland started to reinvigorate its relations with the PRC. Poland's goals are mostly to expand its export and investments to China and attract valuable Chinese FDI –mostly greenfield, manufacturing and R&D–, which create jobs and allow for technology transfers.

Poland's goal is also to increase transport cooperation, which falls under the BRI.[3] It aims to handle and benefit from cargo trains between China and Europe, as many of the trains pass through Poland. There is also a Poland-China train from Łódź to Chengdu, launched in 2013 a few months before the BRI announcement. Poland is interested in logistics services, producing goods and revenues from (usually goods of high value) imported by trains that start and end their trip in Poland.

Previous Polish governments also perceived China as a potential political partner. The mindset was that Poland should strengthen cooperation with China as a growing global power. The perception was that, being a big EU state and not having intensive relations with the PRC, Poland

2 'Joint Declaration on Defense Cooperation Regarding US Force Posture in Poland'.
3 Poland signed a BRI MoU in late November 2015. The Chinese version of this document is available at https://www.yidaiyilu.gov.cn/wcm.files/upload/CMSydylgw/201901/201901031052033.pdf.

might be marginalised. It was believed that a rising China would take on more international responsibilities and would become an inevitable partner in solving global problems. Moreover, the China-led 16+1 format (China-Central Europe) was perceived to be positive because it would attract the PRC's attention to Poland and Central Europe and create more opportunities for contacts with the Chinese administration.

US and Chinese pressure on Poland (as well as on other CEE countries) makes the region a middle ground between two great powers.

However, since 2017 Poland's approach towards China has become more cautious. The reasons are the poor outcome of the 'comprehensive strategic partnership' and also concerns about China's more assertive approach and the lesser prospects for the country's liberalisation. First, the trade deficit with China is expanding on the Polish side. What is more, Poland is wary of Chinese investments in high-tech and critical infrastructure and credit-based projects –after lessons learned from other countries–. Moreover, bilateral political dialogue has become noticeably less intense. The reason is that China is trying to use the 16+1 format instead of investing in bilateral relations. Poland is also unhappy about China's closer ties with Russia, including joint military exercises in the Baltic Sea and military cooperation with Belarus. In practice the change is visible in Warsaw's cautious approach towards Chinese investments. Poland is not interested in receiving money (it argues that it has enough capital from EU funds) and giving Chinese investors control over entire investment projects: rather, it wants to focus on China as a partner (eg, sharing know-how and easy solutions). Poland also considers 16+1 (now 17+1) ineffective in both economic and political terms.

But the biggest discrepancy was in 2018-19. In December 2018 the Polish MFA published on its twitter account a statement about commercial cyber-espionage, including that attributed to China,[4] while in January 2019 two Huawei employees from the Warsaw office –Polish and Chinese citizens– were arrested on spying allegations. Despite the Polish authorities' explanation that it was a purely criminal issue, arrests were seen, and not only in China, as Polish support for the US's China policy.

Manoeuvring between the US and the EU, while keeping channels open to China

When it comes to the risks for Poland of US-Chinese friction, they are similar to those for the entire EU: increased internal competition caused by redirected exports from China and the US to Europe, or the breach in cooperation with US and Chinese partners in global value chains. Furthermore, Trump's inconsistent stance on NATO and the EU might give rise to a risk of less intimate transatlantic relations and more Chinese efforts to enhance cooperation with selected EU member states to undermine Europe's cohesiveness on the policy towards China. For Poland in particular it might have a negative impact on bilateral relations with China, since the latter perceives Poland as a 'US accomplice' and a 'hardcore US ally'. Further, US and Chinese pressure on Poland (as well as on other CEE countries) makes the region a middle ground between two great powers.

4 https://twitter.com/PolandMFA/status/1076115014816317441/photo/1.

But there are also some possible positive results. From the EU perspective, the dispute might lead China to open up its market to exporters and investors, including those from EU countries, such as Germany (of which there are already examples of Chinese concessions). This might benefit Poland as an important supplier for Germany. What is more, the fact that Poland (and CEE) is a kind of playing ground between US and China might be, paradoxically, used by Poland to more boldly underscore its EU position as a bridge between the US and China.

What pressure do the US and China exert on Poland? US pressure on the EU, including Poland, as regards its policy towards China is quite noticeable. A good example is the speech of W. Mitchell (the former Assistant Secretary, Bureau of European and Eurasian Affairs) in October 2018 at the Atlantic Council. He said: 'China has become a major player in Central and Eastern Europe. Beijing uses debt-book diplomacy to accumulate infrastructure and force concessions on smaller nations. Part of the reason that our rivals are gaining ground in Central and Eastern Europe is that for too long the West did not take competition seriously here. Our allies in Central Europe must not be under any illusions that these powers [Russia and China] are their friends. They want dependencies'.[5] Pompeo, during his trip to Poland, warned about Huawei with a suggestion that if Chinese telecoms remain in Poland they might hinder US-Polish security cooperation.[6] Furthermore, during US Vice-President Pence's visit to Poland in September, two countries signed a joint declaration on 5G, which does not name but clearly references China.[7] The text suggests that it could result in blocking Huawei from Poland's 5G network. Nevertheless, this is not a legally binding document.

Chinese pressure is less visible but more sophisticated. The PRC is aware of Poland's strong alliance with the US. Pressure was noticeable especially after the Huawei halt, although it must be noted that China's criticism moved from the harsh (in the Chinese press in the first days after the halt) to the moderate. The Chinese Embassy in Warsaw, for instance, issued a statement arguing that there was no evidence of interference.[8] In an unusual move, in February the website of the Chinese Embassy in Warsaw issued a response to remarks by certain US officials in Poland. The text in Polish and Chinese was titled 'Statement of the Chinese Embassy in response to remarks by certain US officials in Poland'. In it, the Chinese accused the US of exerting pressure on Poland to undermine Polish-Chinese relations. The PRC hoped 'that Poland, realising an independent principle, will take an objective, just and rational decision regarding Chinese companies and will provide them with a fair and transparent business environment, so that Chinese-Polish relations will not be disturbed and sabotaged'.[9] Despite this, the Chinese Deputy Minister of Foreign Affairs visited Poland in early March 2019, while its Minister of Foreign Affairs, Wang Yi, visited Warsaw in July. When two months after Wang's visit the Polish-US joint declaration on 5G was signed, the Chinese reaction was once again mainly directed at the US and not Poland.[10]

How is Poland dealing with the pressure? It seems that for Poland there is no dilemma about who to favour, the US or China. The US is an ally and an apparent first choice, as shown by the evolution of Poland's policies towards the two countries: closer to the US and cautious towards China.

5 A.W. Mitchell (2018), 'Remarks at the Atlantic Council', Washington, 18/X/2018, www.state.gov.
6 'Pompeo warns Poland on Chinese, Russian meddling', 12/II/2019, https://www.youtube.com/watch?v=P9atStQcRSI; and 'US Secretary of State Mike Pompeo warns America might scale back European partnerships if countries continue business with Huawei', *South China Morning Post*, 11/II/2019.
7 'US-Poland Joint Declaration on 5G', 2/IX/2019.
8 http://pl.china-embassy.org/pol/sghd_1/t1629058.htm.
9 http://pl.china-embassy.org/pol/sghd_1/t1637769.htm.
10 http://pl.china-embassy.org/chn/sghd/t1694167.htm.

Nonetheless, Poland's clear stance on the alliance with the US does not mean that US-Chinese friction does not pose a challenge. Disputes can have consequences for Poland's position in the EU when it comes to the latter's policy on China. It creates a dilemma not about choosing the US or China but rather whether to be closer to the US or the EU where China is concerned. The reasons are the different US and EU policies towards China despite the EU's recent more pragmatic stance on the PRC and its sharing of US concerns. Poland is attempting to balance its position between the US and the EU. Despite US pressure and the alliance, Poland remains in the EU's mainstream in terms of policy towards the PRC. The Huawei case is a good example. After the company employee arrests, the Polish government suggested that the enterprise could pose risks. But it also underscored that Poland –together with the EU and NATO– should jointly asses the risk.[11] There was no explicit suggestion about excluding Huawei from the Polish market. In the process of drafting the country's risk assessment at the request of the EU Commission, the Polish representative suggested that Poland could not be dependent on one 5G supplier, and that recommendations are based on principles of increased security requirements and the need to subject equipment suppliers to meticulous risk analysis. Possibly, Huawei will not be explicitly excluded from the Polish market but security mechanisms related to 5G will be strengthened.

At the same time, Poland is trying to improve its relations with China to 'cover' the latest developments or at least keep the door open to the PRC. As mentioned, in early July Wang Yi visited Poland during his week-long tour through Central Europe (Poland, Slovakia and Hungary, countries visited by Pompeo in February). This was a long-awaited visit (the Chinese side had postponed the visit five times, as it had been scheduled for 2018). Minister Wang was told in Warsaw that Poland would not adopt any discriminatory measures against any foreign company. After the US-Polish joint declaration on 5G, China announced that it counted on Poland keeping the promises made during Wang's visit. Polish officials said that no one would be excluded and that China was seen as a partner.[12]

Conclusions

Poland is trying to play a role as a bridge between China and the US, while staying in the EU mainstream. During Wang's visit, he was hosted in Warsaw in the place where secret PRC-US talks were held during the Cold War. Xinhua noted this and recalled Poland's role in restoring Chinese-US ties. The PRC is aware of Poland's frequent contact with the Trump Administration. Under these circumstances China openly criticizes the US, but not Poland, since it is considered in Beijing as not China-friendly. In that respect China is maintaining open its channels of communication with Poland.

For Poland, maintaining close relations with the US and the EU while at the same time keeping up contact with China is a means of monitoring Chinese relations with Russia, being vocal about it and preventing a European 'selective engagement' with Russia (against China) and a 'reverse' Kissinger moment, bearing in mind Trump's unpredictability. But it remains to be seen if Poland's approach will prove to be well thought through, consistent and effective.

11 Ministry of Internal Affairs, radio interview on RMF FM, 12/I/2019.
12 J. Jędrzejkowski (2019), 'Polska może być mostem między USA a Chinami', *Rzeczpospolita*, 29/IX/2019; and 'Polskie 5G nie dla Huawei? Prezez UKE: Myślę, że nie dojdzie do wyłączania kogokolwiek z rozwoju tej sieci', *Dziennik*, 3/IX/2019.

PORTUGAL, CHINA AND THE US: A 'UNIVERSALISTIC' STANCE TO GET ALONG WITH BOTH POWERS

PORTUGAL, CHINA AND THE US: A 'UNIVERSALISTIC' STANCE TO GET ALONG WITH BOTH POWERS

Carlos Rodrigues & Jorge Tavares da Silva
University of Aveiro

Abstract

Portugal has very close and friendly relations with both the US and China, based on shared motivations and drivers but also on distinct geopolitical considerations. Multilateralism and a history-based 'universalism' enable Portugal to effectively manage its relations with two rival such as the US and China. Most recent developments show that Portugal has equally high expectations regarding the two countries in terms of trade and investment. However, the smooth state of affairs with China contrasts with some turbulence in its relations with the US. The effects on the local economy of the Azores of US military downsizing, US concerns about the increasing influence of China in sensitive and strategic sectors and the Huawei controversy are the issues now on the table.

Portugal maintains very close and friendly relations with both the US and China. A founder-member of NATO, Portugal is considered a reliable ally by the US. In turn, as a strategic partner since 2005, Portugal is regarded as a very friendly EU member state by China. This relational framework entails common motivations and drivers, in trade and investment, but also distinctive elements, as in the realm of geopolitics. The 'universalistic' approach to world affairs, deeply rooted in the five-century-old legacy of Portuguese maritime discoveries is recurrently used as a leading reason and structuring foundation of the maintenance of good relations with major rival powers, such as the US and China. Augusto Santos Silva, the Portuguese Minister of Foreign Affairs, wrapped it up as follows: 'We are friends and partners of China, but we are not allies'.[1] This is linked to multilateralism, a guiding concept in Portuguese foreign policy.

Friends, partners and allies…

Portugal is a small, open and friendly EU country, which skilfully masters its history and imperial past to generate a firm adherence to multilateralism and thus a 'universalistic' stance in the world order. Portugal deals with two opposing powers such China and the US by managing the complex relational 'mix' of friendships, partnerships and alliances, in ways that yield good results for the country. Nevertheless, as expected, there are major differences in Portugal's positioning towards China and the US.

On the one hand, Portugal strongly states its commitment to NATO and the EU. Concerning the US in particular, the NATO framework is a very strong relational cement and the *locus* of long-standing and intense cooperation. This geostrategic dimension is a major driver of bilateral relations between Portugal and the US.[2] The Azores archipelago, in the Atlantic Ocean, played a crucial part in this dimension. Its high strategic relevance for the US, namely as a support point

1 *Semanário Sol*, 3/XII/2018.
2 J.G. Faria, (2003), *José Calvet de Magalhães – Humanismo Tranquilo*, IEEI, Princípia, Lisbon.

When the troika forced Portugal to privatise a number of public companies, it was China which has invested, while others wanted to buy the companies as a bargain.

for US military forces has been well evidenced during several armed conflicts since the 1940s. The Lajes Field in Terceira island hosts the USAF's 65th Air Base Group.

On the other hand, China, as friend and partner country, garners a great deal of diplomatic attention from Portuguese governments. Lacking the cement provided by an alliance such as NATO, the approach is grounded in cultural and economic vectors. China was often regarded as a 'helper' during the crisis between 2008 and 2014, as opposed to the 'rude' austerity strategy imposed by the EU troika. According to António Costa, the Portuguese Prime Minister, 'When the troika forced Portugal to privatise a number of public companies, it was China which has invested, while others wanted to buy the companies as a bargain'.[3] In addition, China strongly supported Portuguese diplomacy, namely in the cases of the (successful) candidacies of António Guterres (as UN Secretary General) and António Vitorino (as International Migrations Organisation –IMO– General Director). Official sources confirm a shared view with China concerning multilateralism, international trade, climate change, energy transition and the prospects of win-win economic cooperation. According to Santos Silva,[4] bilateral relations between Portugal and China 'evolve within the European political frame of reference', thus counteracting the idea that the partnership with China is being developed against the EU. As an example, the Belt and Road Initiative MoU signed by Portugal in December 2018 mirrors 'the Portuguese interest in the initiative, which fits well the EU Eurasian connectivity strategy, as well as the EU-China Connectivity Platform'.[5]

In trade and investment, the US is Portugal's biggest trade partner outside the EU. In 2018 it ranked 5th as an export market and 9th in terms of imports.[6] China, in turn, ranked 13th in exports and 6th in imports.[7] As for FDI, China has a more prominent position than the US. From 2010 to 2018 Chinese investment in Portugal amounted to around €9 billion (€6 billion without real estate), against around €2.3 billion invested by the US.[8]

As for the effect the US-Chinese trade war can exert on a small economy such as the Portuguese, the existence of a slightly negative trend in the national commercial balance is being connected to the escalating tensions between the two powers and thus ringing alarm bells in Lisbon. The central bank disclosed GDP growth forecasts up to 2021, pointing to a 0.7% reduction in the case of a 'limited trade war' and a 2,5% decrease in the case of a 'widespread trade war'.[9] The direct effect of this economic slowdown would be a decreasing export activity and thus lower demand for productive factors, bringing lower investment, employment and wages.

An additional sign of the bilateral relations with China and the US relates to the great number of high-level official visits made in the most recent years in both cases. Among them, since 2016, Xi Jinping in Lisbon, and Rebelo de Sousa and António Costa in Beijing, and Rebelo de Sousa in Washington. Although there has been no official confirmation, the possibility of having Trump

3 *Público*, 9/VI/2019.
4 'Nós, a Europa e a China', *Público*, 9/VI/2019.
5 *Ibid*
6 € 2.87 billion, 5.4% of total Portuguese exports; € 1.38 billion, 2.8% of total Portuguese imports.
7 € 0.90 billion, 1.0% of total Portuguese exports; € 2.35 billion, 2,5% of total Portuguese imports.
8 Agência para o Investimento e Comércio Externo de Portugal (AICEP), www.portugalglobal.pt.
9 Banco de Portugal (2018), *Boletim Económico*, June.

visit Lisbon this coming year is highly likely. The Portuguese media are speculating about the agenda of an eventual visit of the US President. The Azores, the Port of Sines and the 5G network will certainly be part of it, and so will China.

Azores, Chinese influence and Huawei…

The recent evolution of bilateral relations confirms the relevance that Portugal attributes to the development of good relationships with both powers. It also shows signs of two distinct courses: a strong drive as regards China, with huge expectations, particularly in attracting investment and developing trade, as opposed to not such a positive, or perhaps even turbulent, relation with the US, although expectations are far from low. This, according to Santos Silva, does not call into question the good, stable and long-lasting relationship with the US, but the Minister does claim that there is a need to put 'circumstantial elements into perspective'.[10] After a meeting with Mike Pompeo in June 2018 he said: 'independent of the differences of opinion, which are clear today, in matters as important as climate change or international trade, the alliance between the democracies of North America and Europe is absolutely vital for the international order'.[11]

However, among these circumstantial elements, rather than global issues such as climate change or international trade, there are 'local' issues that have led to some turbulence between Portugal and the US. These are the fate of the airbase located in the Azores, Chinese influence and, as expected, the Huawei affair.

China and the US military downscaling in the Azores

Budget cuts at the Pentagon led the US to downscale its military presence in the Azores archipelago, from more than 3,000 personnel during the Cold War to a mere 200 at present. Obviously, the cuts had a harsh effect on the small island community (of around 56,000), heavily dependent on the US, both socially and economically. Terceira's GDP fell 10% in 2016 and unemployment registered a dramatic increase to 55%.[12] The situation caused some friction between Portugal and the US, stirred up by environmental problems (namely soil contamination), detrimental to health, caused by military activity, which had been kept secret for decades.[13] Although a number of new development plans have been sketched out to mitigate the negative effects, negotiations between Portugal and the US are underway, but not always with satisfactory results.

Meanwhile, the Chinese Premier Wen Jiabao in 2012, Xi Jinping in 2014 and Li Keqiang in 2016, visited the archipelago. Some, especially in the US, took these stopovers as a sign of a growing Chinese interest in the Azores. Michael Rubin, a former Pentagon official, for instance, wrote several opinion articles warning of the possibility of a Portuguese 'Plan B', since 'Portugal cannot simply condemn the local economy to disaster because of an arbitrary if not fraudulent US decision'.[14] The author regarded the Plan B as including an open door for the Chinese in the Azores. The Portuguese authorities immediately downplayed US fears. The Portuguese PM did not deny the growing Chinese interest in the Azores (including the deep-water port of Praia da Vitória, a few miles from the Lajes Field), but denied any possibility of a Chinese military presence.

10 *Diário de Notícias*, 20/I/2018.
11 LUSA, June 2018.
12 *Expresso*, 20/IV/2018.
13 Jose Pinto (2017), 'Base das Lajes: Portugal a ver passar aviões', *Observador*, 18/IX/2017.
14 M. Rubin (2016), 'Why are we ceding the Atlantic to the Chinese?', *Newsweek*, 28/X/2016. The 'arbitrary if not fraudulent' decision referred to by Rubin concerns the US Defense Department's choice of the UK (RAF Croughton) over the Azores for the Joint Intelligence Analysis Complex.

Despite the lack so far of any signs of interest from US investors, Sines is an obvious matter of concern to US officials.

Chinese influence

The Port of Sines is on the US-Portuguese dialogue agenda. Sines is Portugal's main oceanic port and could emerge as a viable alternative to the congested port of Rotterdam. Furthermore, the prospective of new canals in Central America, involving Chinese investment and interests, reinforces the importance of the Portuguese sea, thus making Sines more attractive. Last July, the Portuguese government opened an international public tender procedure for a 50-year concession of the new Sines container terminal, with a foreseen capacity of 3 million TEU. It is clear that Chinese companies will be at the frontline of the race, especially because Sines is considered a prominent infrastructure node of the Maritime Silk Road. Paula Vitorino, Minister of the Sea, has said that the Port of Sines 'can mark the beginning of a new era in bilateral relations between China and Portugal'.[15] The Ministry of Foreign Affairs, for his part, sees the possibility of connecting Sines to the Yiwu-Madrid railway as a 'good possibility for Portugal, China and the EU'.[16] Furthermore, it is no secret that Chinese companies such as COSCO and SIPG are greatly interested in the new Sines terminal.

Despite the lack so far of any signs of interest from US investors, Sines is an obvious matter of concern to US officials. Besides its relevance as a major entry point for US LNG in Europe, there are worries about the increased influence of China on a close ally that could come with concessions to Chinese companies. That is why, a few days after Xi Jinping visit to Portugal, in December 2018, Washington sent Roland de Marcellus, Deputy Secretary of State for International Finance and Development, to Lisbon. He met the Portuguese Prime Minister and pressured the government to avoid 'excessive cooperation' with China, particularly in technological areas and in strategic assets (such as Sines). He recommended enhanced vigilance over Chinese investment, especially 'when foreign investors benefit from access to state subsidies or when they are acting on strategic, rather than commercial motivations'.[17] These concerns were not new to the Portuguese authorities. A few months earlier, the US Ambassador to Lisbon warned against Chinese investment in Portugal from companies that 'obey the orders of Beijing political power'.[18] The Sines situation is now in the hands of the market. According to the Portuguese government's official position, the country is a sovereign state and free to choose the best bidder. US pressure on Portugal, though, gained further traction in early 2019 and Huawei was the reason.

The Huawei affair in Portugal

In February 2019, Ajit Pai, the Chairman of the US Federal Communications Commission (FCC), headed to Lisbon with a clear goal: to warn against 'a risk that Portugal should not take in order to avoid creating discomfort in its North Atlantic ally'.[19] The risk was Huawei and its eventual participation in 5G network development in Portugal. George Glass, the US Ambassador to Lisbon, added to the threatening rhetoric by confirming that in the event of Huawei's involvement, the relationship between Portugal and the US would change. He averred: 'Portugal is our second oldest ally. A most important part of the relationship concerns the sharing of information that we only share with an ally, especially, with NATO allies. In the case of security breaches, we have to think about a new way of exchange information'.[20]

15 'Porto de Sines pode representar uma nova era na relação entre Portugal e China', Portuguese Government Press Release, 22/V/2019.
16 *Sol*, 3/XII/2018.
17 *Expresso*, 29/XII/2018.
18 LUSA, July 2018.
19 *Público*, 28/II/2019.
20 *Ibid*

The Portuguese Prime Minister immediately reacted: 'we do not defend any security breach, but we reject the introduction of protectionist mechanisms that, under the pretext of security, bring disadvantages to the procurement conditions of countries in need for technological modernisation'. Later on, the Minister of Foreign Affairs revealed that Portugal would work within the EU to reach a common orientation concerning the 5G network and bear in mind 'all the information, risks and liabilities'. 'Obviously, we pay particular attention to the information that we receive from a very consistent and close military ally', he added.[21]

Meanwhile, Huawei is reinforcing its presence in the Portuguese telecommunications market. Its partnership with Altice (the main telecommunications operator) is part of the MoU signed during Xi's visit in December 2018. The common view in Portugal is that Huawei will certainly have a stake in the 5G network deal, while the official position indicates that the Portuguese state has the 'freedom to choose'.[22]

Dodging a major diplomatic obstacle…

A 'universalistic' and multilateral approach to international relations is nurturing Portugal's capacity to dodge major diplomatic obstacles without bringing into question its commitment to political frames of reference and values shared within the EU and NATO. Nevertheless, geopolitical changes are now pushing Portugal, as never before, to revise its (friendly) approach to China, an EU 'strategic rival' and a challenger to US global hegemony. The Portuguese political and economic elites, despite external pressure, are still eager for 'business as usual'. The state of current policy making perfectly mirrors this expectation. The big question is thus the positioning of Portugal if Mark Leonard's prediction that 'neutrality is not really an option for Europeans'[23] materialises.

21 LUSA, July 2019.
22 The Ministry of Foreign Affairs declared to LUSA that the MoU 'does not bound Portugal in any form, as it was signed between a Portuguese company with French capital and a Chinese company'.
23 M. Leonard (2019), 'The end of "Chimerica"', *Project Syndicate*, https://www.project-syndicate.org/commentary/end-of-chimerica-and-future-of-europe-by-mark-leonard-2019-06.

ROMANIA'S RELATIONS WITH THE US AND CHINA: HARD STRATEGIC CHOICES IN TOUGH TIMES

ROMANIA'S RELATIONS WITH THE US AND CHINA: HARD STRATEGIC CHOICES IN TOUGH TIMES

Iulia Monica Oehler-Şincai
Institute for World Economy, Romanian Academy

Abstract

The US-Chinese trade war directly and strongly affects the world and regional economies and indirectly Romania. Even if the trade and investment ties between Romania and the two geographically distant partners are weak, uncertainty and a feebler EU economy heavily influence the national economy. Bearing in mind the multitude and complexity of recent sensitive issues between the US and China and perhaps also its usual neutral stance in complex external issues, Romania does not openly declare itself to be on the US side in the Sino-US trade war. However, it is more inclined to support US initiatives than Chinese ones. Even if a stronger economic relationship with China is in Romania's direct interest, it is not feasible in the context of a new internal political turmoil and also under the circumstances accompanying Sino-US hostility and Brussels' tougher stance on China.

At the time of writing, with Romania's centre-left government being ousted after a no-confidence vote, a transitional government has been formed by the leader of the largest opposition party, the Liberal Party. In comparison to the country's episode of political instability, the direct consequences of the US-Chinese trade war on the national economy are not significant, although collateral effects such as uncertainty, volatility and associated risks, as well as the negative impact on the EU have a reflection on the national business environment, investment, trade, employment and economic growth.

The complex US-Chinese 'war' also affects the relations between China and Romania. The latter is strongly attached to Western political values and therefore is more inclined to support its most important strategic partner outside the EU, namely the US, in terms of security issues, which are interrelated with economic matters. Besides, recent internal changes in Romania will generate a change of attitude towards China. Compared to the Social-Democrats, who had been the main supporters of a strong economic relationship with China –even if none of the proposed large-scale projects has materialised–, the Liberal Party seems to be more cautious.

Constants and variables in Romania's relationships with the US and China

During the first Romanian Presidency of the Council of the EU in the first semester of 2019, two constants of Romania's foreign policy were reiterated on various occasions: (1) a strong support for the EU project and (2) for a vigorous transatlantic relationship. In 2019 Romania celebrated 15 years of NATO membership, 72 years of bilateral relations with the US and 22 years of strategic partnership, which is described as 'robust and durable'. The US recognises Romania as 'a model NATO ally' and intends to strengthen bilateral ties in 'strategic fields such as energy and defence'.

2019 marked seven decades of uninterrupted diplomatic relations between Romania and China and 15 years since the launch of the 'comprehensive friendly and cooperative partnership'. During

the Cold War, Romania was one of China's most important European partners. But, from 1989, there have been ups and downs in the bilateral relationship, alongside new priorities in foreign policy.

While Romania's partnership with the US is mainly based on factors related to security, geopolitics and political values, its relationship with China is guided by economic determinants but under the influence of EU policies and strategies towards China. Since 2007, when Romania became an EU member state, Sino-Romanian relations have always been considered by Romania a part of the EU-China strategic partnership. Romania has been in general responsive to the signals sent from Brussels even if it was not vocal on sensitive issues in relation with China and did not rush to implement the provisions of the EU-China Strategic Outlook of March 2019, by adopting a tighter regulatory framework in specific sensitive sectors. For instance, Romania does not have an investment screening mechanism even though it is likely to establish monitoring instruments in the near future.

On the one hand, Romania intends to deepen its partnership with China but it takes action only when this does not generate tensions with the US (and with the EU as well). For instance, during 2017-19 there was intensified cooperation in education, culture and tourism, which do not pose any risks to its relations with the US and the EU.

On the other hand, Romania tends to respond positively to US requests. The 'Joint Statement from President of the United States Donald J. Trump and President of Romania Klaus Iohannis' adopted in Washington DC on 20 August 2019 underscores Romania's support not only against Russia but also China. It includes what appears to be a mention in this regard: 'We also seek to avoid the security risks that accompany Chinese investment in 5G telecommunication networks'. This reveals a clear change of position, as Romania has never before had a stance that might be considered antagonistic vis-à-vis China. Therefore, even if Romania does not declare itself to be on the US side in the US-Chinese war, it seems to support the US stance where directly required to do so.

Dealing with friction between Washington and Beijing

So far, with the exception of the 5G issue, in Romania there is no general official position on the current US-China trade war. The mass media cover the topic extensively but for the most part maintain a neutral position.

Romania takes a discreet approach to sensitive issues in bilateral relations with both the US and China. These are left outside the bilateral dialogue to be addressed within supranational and multilateral levels. This is not a 'cowardly policy' but rather an alternative to concentrate on the country's own priorities, linked to economic and security objectives.

After the start of the trade war, the US has become more assertive in relation with its partners, especially within the NATO framework. It demands directly and obviously a certain attitude towards China in key sectors, particularly those related to security issues. For Romania, its tense relations with Russia are an additional explanation for its stance towards the US and also for the importance given to security issues.

It cannot be said that Romania agrees with US actions against China in their trade war as they have ample repercussions on the European economy at large, but it does back US actions considered

to be in its own interest, for instance those related to cyber security. The following sections focus on three key areas of competition between the US and China.

It cannot be said that Romania agrees with the US actions against China in their trade war… but it does back US actions considered to be in its own interest.

Digital rivalry

The Trump Administration wants its NATO allies to ban Huawei technologies at auctions for 5G networks. The US position is based on the suspicion of espionage, even though there is so far no proof and the accusations have been denied by Huawei. At the same time, the European Commission has reiterated that 'ensuring the security and resilience of 5G networks' is 'essential'.

The Trump-Iohannis 'Joint Statement' of August 2019 was accompanied by a MoU between the governments of Romania and the US on 5G technology, 'given the importance of the security of the next generation of wireless communications networks in order to ensure prosperity, but also national security'. According to the press statement, it 'does not refer to a particular company' but 'clarifies some criteria of transparency, compatibility with the rule of law and so on'. However, the statement and MoU are not equivalent to an automatic ban on Huawei.

On 5 September 2019, the US Ambassador to the EU encouraged a 'Huawei-free' Romania. Nevertheless, Huawei has declared that it does not exclude the possibility of suing Romania in the event of being excluded from the 5G auction, as 'denigration and defamation of a single player in a market, its isolation, is illegal'.

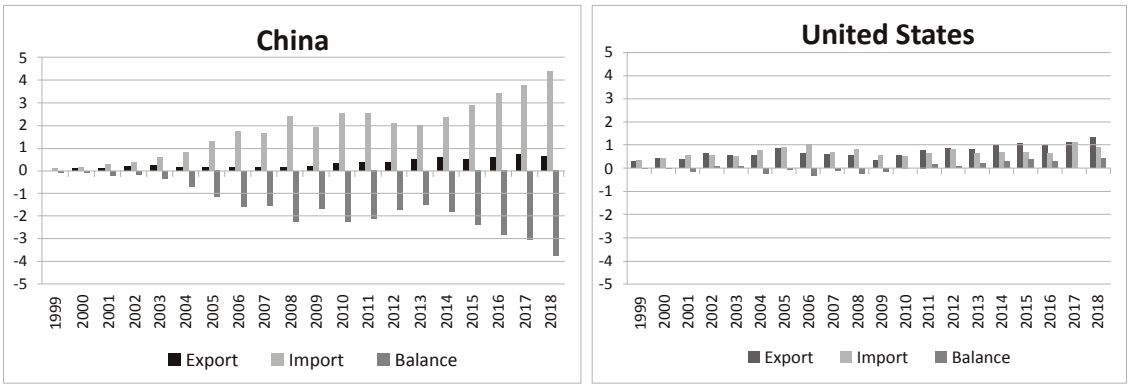
Bearing in mind the complex pressure from multiple levels and intense cooperation between Huawei and relevant market actors (operators of both fixed and mobile networks in Romania such as Vodafone, Orange, Telekom and RCS-RDS), it is quite possible that, in the case of Huawei, the Liberal government will follow the national interest in economic terms. The decision will be taken in accordance with the fulfilment of the participation criteria, including those related to transparency and compatibility with the rule of law.

Trade and investment

The US is Romania's most important strategic partner outside the EU, but its share of Romania's trade and investment is very low.

As regards the trade in goods, both China and the US only account for a small percentage. In 2018 the US was 13th in the list of markets for Romanian exports and the 19th source of imports, while China was 20th and 5th, respectively. The US accounted for 2% and 1.1% of Romania's exports and imports, respectively, while China's shares were 1.1% and 5.3%. Total Romanian-Chinese trade flows (exports plus imports) in 2018 were more than double the volume of Romanian-US flows, at €5.2 billion compared with €2.2 billion. Two features stand out: (1) there is an increasing trade deficit with China since 2013 and a persistent surplus with the US after 2011, in contrast to the previous period; and (2) there are much larger compound annual growth rates for trade flows with China during 1999-2018 (more than 10% for exports and 18% for imports) compared with the US (6% and 5%, respectively) (see Figure 1).

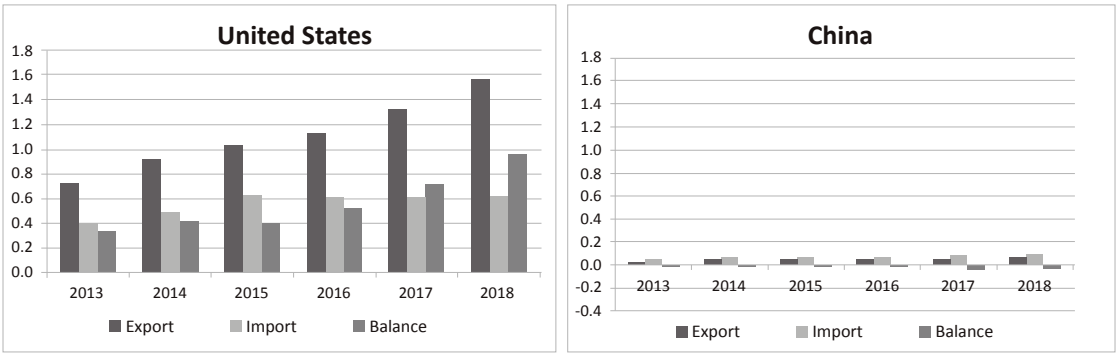
Figure 1. Romanian trade flows in goods with the US and China, 1999-2018 (€ billion)



Source: Eurostat (2019), *Trade and investment flows database.*

Unlike the trade in goods, the US is a much more important extra-EU trade partner than China as regards the trade in services (see Figure 2). The latter totalled €2.2 billion with the US but only €160 million with China. The value of Romanian services exports to the US increased from €727 million in 2013 to €1.6 billion in 2018, while imports grew from €394 million to €612 million in the same period. The US shares in Romania's total services exports have steadily increased although they remain low, at 7% and 4%, respectively (but higher than China's 0.3% and 0.7%). The trade balance of services with the US came close to €1 billion in 2018, while the trade deficit with China was of €32 million in the same year. Definitely, compared with intra-EU trade flows, those with both the US and China remain modest.

Figure 2. Romanian trade flows in services with the US and China, 2013-18 (€ billion)



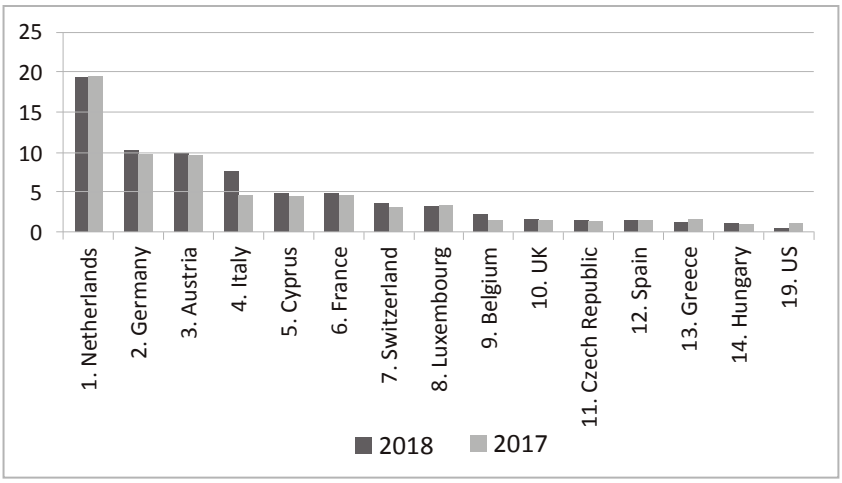
Source: Eurostat (2019), *Trade and investment flows database.*

Statistics on FDI in Romania differ considerably on account of the methodology employed, taking or not into account indirect and small investments and also investments made through subsidiaries located in other countries.

According to Romanian statistics, at the end of December 2018 there were 12.597 companies with Chinese capital and 7.672 with US capital in Romania, accounting for 5.7% and 3.5%, respectively, of the total number of companies with foreign capital. Most of the Chinese companies are small traders and many are also inactive. Despite the high number, China ranked only the 21st in the hierarchy of foreign investors in Romania (but still ahead of Japan and South Korea), with an estimated capital stock held by Chinese investors of around €285 million (0.6% of the total). The US ranked 14th, with a total of €767 million (1.7%).

According to the National Bank of Romania, in the hierarchy of the most active investors, the US ranked 19th, at €0.5 billion (0.7% of the total), compared with the 14th place it recorded in 2017, at €1.1 billion (1.5% of the total), while China was not mentioned at all (see Figure 3).

Figure 3. FDI in Romania by country of origin at the end of 2018 and 2017 (stock, € billion)



Source: National Bank of Romania (2019), *Foreign Direct Investment in Romania in 2018.*

Geopolitics/connectivity

Romania was one of the first countries to sign a Memorandum of Understanding with China as regards the BRI in June 2015. Romania is in a good position as regards BRI and 17+1 and it intends to achieve a stronger cooperation in connectivity. Nevertheless, at the BRI forums it has not been represented by either its head of state or government, but only by its Deputy Prime Minister and Minister of the Environment in 2017 and its Secretary of State for Foreign Trade at the Ministry for Business Environment, Commerce and Entrepreneurship in 2019.

A strong relationship with the EU and the US does not mean that Romania is always satisfied with its obligations as a member state and strategic partner. A good example is Constanta harbour. The statistics underline a stringent need for development and expansion. A public-private partnership with China would be feasible but is it realistic in the context of strong opposition from Romania's

partners? It is evident that the US government rejects a strong Chinese presence in Constanta, due to security reasons (NATO navy groups are often present and joint military exercises take place in the Black Sea). At the same time, the decision makers in Brussels do not approve the expansion project. Despite the positive effects of the investment, the project is considered state aid, as the new facilities will be used by private operators even if they remain state property. Hence Romania's dilemma: how to better achieve its national interest?

Conclusions

Romania does not have an official position on the current US-Chinese trade war, with the exception of the 5G issue. Through this neutrality it is trying to follow its own national interest as much as possible but taking into account its high level of attachment to the EU and the importance given to the US as a guarantor of security. Even if a stronger economic relationship with China is in the country's direct interest, increasing obstacles are evident under the new context generated by the US-Chinese trade war.

Romanian political discourse has recently included a clear distancing from China as regards 5G technologies. In a sector where China is obviously the world leader, the US is trying to forge partnerships with its allies in order to block Chinese access to Western markets. The US can handle 'carrots' just as well as 'sticks', not only with its partners in Central and Eastern Europe, but with Western European countries as well. Romania's declared need to avoid the security risks that accompany Chinese investment in 5G telecommunications networks underlines for the first time a position which is antagonistic vis-à-vis China. The real test of the complex triangular relations between the US, China and Romania will be at the national auction for the 5G network.

SLOVAKIA: A COUNTRY BETWEEN EAST AND WEST

SLOVAKIA: A COUNTRY BETWEEN EAST AND WEST

Gabriela Pleschová
Comenius University in Bratislava

Richard Q. Turcsányi
Central European Institute of Asian Studies

Abstract

US-Chinese rivalry does not affect Slovakia very much except as regards the tariffs imposed by the Trump Administration, which hurt Slovakia's car exports. But the tariffs are not seen by the Slovak government as a major impediment to bilateral relations. Three main reasons explain this: (1) competition between the US and China is not as relevant for Slovakia's interests as the struggle between the West and Russia; (2) Slovakia's relations with the US and China are different in nature, since Slovakia has a political-strategic relationship with the US and a commerce-based relationship with China, in fact, they are almost two unrelated dyadic relationships, given the proximity with the US in terms of values as opposed to a historically distanced relationship with China; and (3) while the US is perceived as vital to Slovakia's security, China's importance is far lower. A consequence of this is a rather stable policy over time, prioritising the partnership with the US, and this is most likely to remain unchanged.

The Slovak public tend to opt between the West and Russia rather than between the US and China. According to a 2019 poll, no more than 23% of Slovaks want the country to be part of the West, which is the second-lowest score among seven countries surveyed in Central and Eastern Europe (CEE). Most people (46%) prefer their country to be positioned between the West and the East (associated with Russia) and 10% as part of the East. What is even more striking, despite 15 years of NATO membership, 41% of Slovaks consider the US a significant threat. Only 26% believe the same about Russia and 29% about China.[1]

On the other hand, the Slovak elites consider the US to be the guarantor of the country's sovereignty, recalling the Munich Agreement in 1938 when France and the UK abandoned Czechoslovakia to Hitler. At the same time, Slovakia's economy has been dependent on Western Europe, particularly Germany. Consequently, Slovak foreign policy has tried to walk a fine line between voters' preferences, while not offending any major power.

China-related developments are rarely seen as a priority in Slovakia and the role of China in Slovakia is limited. There is a lack of political will to invest in enhancing relations with China. The Slovak government does not want to antagonise China and therefore it avoids publicly taking sides.

1 Globsec Trends (2019), 'Central & Eastern Europe 30 years after the fall of the Iron Curtain', https://www.globsec.org/wp-content/uploads/2017/05/GLOBSEC-Trends2019.pdf (last access 21/VI/2019).

Slovak relations with the US, Russia and China

The year 2019 has seen a boom in US-Slovak relations. In May the Slovak Premier Peter Pellegrini met in Washington DC with Donald Trump. During the meeting, Pellegrini said that 'the US and Slovakia are stable partners and allies'. He also mentioned that Slovakia will achieve a 2% GDP share for defence by 2022, which is earlier than planned.[2] Although Trump's increased tariffs on imports also penalises Slovak car exports (the most important export to the US),[3] the Slovak Foreign Ministry considers the US its closest ally because of the partnership in NATO, no matter the differences when it comes to the instruments used by the US. The Slovak administration has opted for soft diplomacy to remove tariffs rather than on pressure.[4]

Previously, in February 2019 the US Secretary of State Mike Pompeo visited Bratislava to become the first US official of his rank to do so in the past 20 years. Warning Slovakia against the use of Huawei to build up its 5G network was one of the top three issues on Pompeo's agenda. A representative of the US Department of State said to the press that it was more concerned about Huawei's influence in CEE than in Western Europe.[5]

Pompeo raised with Slovak officials the 'need to guard against China's economic and other efforts to create dependence and manipulate your political system'. 'It's real, it's intentional and they are trying to do things that undermine your sovereignty', he said.[6] Also, US diplomats regularly label China as an emerging contester and raise the issue of the 5G network and cybersecurity.[7] The Slovak representatives do not specifically react to such statements.

In December 2018 Slovakia concluded a contract to buy US F-16 fighters for €1.6 billion –the largest military purchase in Slovak history–.[8] Procurement of the most up-to-date version of the F-16, which will only be delivered in 2021-22, also implied an extended presence ahead of the Russian staff who provide technical support for the MiG aircraft that have so far protected Slovakia's airspace. The media speculate that their role also includes espionage.[9] In parallel, the Defence Ministry declined an offer from the US to modernise Slovakia's military air bases[10] and pushed for the refusal of the stopover of US helicopters on their way to international exercises.[11] Such a behaviour reflects the pro-Russian attitudes of the junior coalition partner Slovak National

2 Týždeň (2019), 'Premiér Pellegrini navštívil amerického prezidenta Trumpa', 3/V/2019, https://www.tyzden.sk/politika/55157/premier-pellegrini-prisiel-na-navstevu-k-americkemu-prezidentovi-trumpovi (last access 21/VI/2019).
3 Daniel S. Hamilton & Joseph P. Quinlan (2019), *The Transatlantic Economy 2019: Annual Survey of Jobs, Trade and Investment between the United States and Europe*, Foreign Policy Institute, Johns Hopkins University SAIS, Washington DC, p. 144, www.amchameu.eu/sites/default/files/publications/files/te2019_fullstudy.pdf (last access 11/X/2019).
4 Personal interview with four officials at the Slovak Ministry for Foreign and European Affairs, 30/V/2019.
5 N. Denník (2019), 'Pompeo v Bratislave útočil na Putina', 13/II/2019.
6 Associated Press (Mathew Lee) (2019), 'Pompeo warns Eastern Europe on Chinese and Russian meddling', 12/II/2019, https://www.apnews.com/d6639cadbde74b6d8bf2acc0e86c4550 (last access 21/VI/2019).
7 Personal communication with Martin Kabáč, Director, fifth territorial department (Americas), Slovak Ministry for Foreign and European Affairs, 10/X/2019.
8 Slovak Spectator (2018), 'Government has approved the purchase of F-16 jets', 12/XII/2018, https://spectator.sme.sk/c/22007566/government-has-approved-the-purchase-of-f-16-jets.html, https://finweb.hnonline.sk/ekonomika/1777039-vlada-schvalila-najvacsiu-modernizaciu-armady-v-historii-kupi-americke-stihacky-f-16 (last access 21/VI/2019).
9 N. Denník (2018), 'Až príliš dobré lietadlá na SNS', 13/XII/2018, p. 9.
10 Slovak Specator (2019), 'The Defence Ministry ends talks on US investment in airports', 13/III/2019, https://spectator.sme.sk/c/22073587/the-defence-ministry-ends-talks-on-us-investment-in-airports.html (last access 14/X/2019).
11 Slovak Spectator (2019), 'US helicopters can land in Piešťany', 18/VI/2019, https://spectator.sme.sk/c/22144940/sns-nominees-refuse-the-landing-of-us-helicopters.html (last access 14/X/2019).

Party, which often appeals to Slovak sovereignty to win the electorate's sympathy.

Other steps that raised doubts about Slovakia's Euro-Atlantic orientation include Premier Pellegrini's meeting with President Putin in June 2019 in Saint Petersburg instead of his attendance at the 75th anniversary of the Normandy landings.[12] The Speaker of the Parliament and leader of the Slovak National Party, Andrej Danko, frequently travels to Moscow and makes pro-Russian statements as, for instance, when he criticised sanctions against Russia.[13] Danko's efforts to influence the direction of Slovak foreign policy resulted in late 2018 in the resignation of the Foreign Minister, Miroslav Lajčák, under whom the Ministry followed a Euro-Atlantic path.[14]

Slovakia expects that the decision concerning Huawei's participation in building up 5G will be made at the EU level, thus protecting Slovakia from retaliatory action by China.

Contacts with China continued in the established trend. Premier Pellegrini participated in the 16+1 summit with China in Dubrovnik and Foreign Minister Lajčák visited Beijing to attend the 2nd Belt and Road Forum. The meetings did not result in any outcome that would approach the significance of the above-mentioned deal with the US. For the Slovak Foreign Ministry the multilateral meeting with China presents an opportunity to get to talk once a year to the Chinese Premier, something that would not otherwise be possible for a small country.[15]

The Ministries of Commerce, Finance and Transport are somewhat more interested in wooing China. They initiated a 'China strategy' accepted by the government in 2017,[16] appointed the State Secretary at the Ministry of Finance as Slovakia's coordinator for the Belt and Road Initiative and worked to develop railway connection with China. However, in these aspects, Slovakia remains far less active than other V4 countries.

In political relations, Slovak representatives increasingly show courage to remind China the human rights issue. In 2016, President Andrej Kiska dined with the Dalai Lama in Bratislava. When meeting China's Foreign Minister Wang Yi in June 2019, the new President, Zuzana Čaputová, expressed her 'concerns and worries from worsening human rights situation in China, detention of lawyers and human rights activists as well as position of ethnical and religious minorities'.[17] Foreign Ministry officials pointed out that relations with China continue to be half-frozen due to Slovakia admitting Uighurs from Guantanamo back in 2013 and the dinner with the Dalai Lama.[18]

12 Sme (2019), 'Pellegrini vyrobil zahranično-politický škandál prvého stupňa', 4/VI/2019, https://komentare.sme.sk/c/22137525/pellegrini-vyrobil-zahranicno-politicky-skandal-prveho-stupna.html#ixzz5pwuVxTCp (last access 21/VI/2019).
13 N. Denník (2019), 'Danko bol opäť v Moskve. Sankcie chce zrušiť, lebo Rusku pomáhajú', 1/VII/2019, (last access 4/VII/2019).
14 The Slovak Spectator (2018), 'Lajčák resigns as foreign affairs minister', 29/XI/2019, https://spectator.sme.sk/c/20973638/lajcak-resigns-as-foreign-affairs-minister.html; and Reuters (2008), 'Slovak foreign minister withdraws resignation after migrant pact row', 7/XII/2008, https://www.reuters.com/article/us-slovakia-politics/slovak-foreign-minister-withdraws-resignation-after-migrant-pact-row-idUSKBN1O60X8 (last access 18/X/2019).
15 Personal interview with four Slovak officials, cited above.
16 Richard Q. Turcsanyi (2017), 'Slovakia's overdue China strategy', The Diplomat, 3/XI/2017.
17 Facebook pages of the Slovak President Zuzana Čaputová, https://www.facebook.com/zcaputova/photos/a.863012043906781/1152227068318609 (last access 11/X/2019).
18 Personal interview with four Slovak officials, cited above.

When speaking about economic relations, Slovakia's ties with the US surpass those with China. US corporations are among the leading investors in Slovakia. US Steel is among the three largest private employers in the country. Total assets of US affiliates in Slovakia reached US$9.7 billion in 2017 and US foreign affiliates employed over 44,000 workers, the 5th largest figure among EU13 countries.[19] Data from the National Bank of Slovakia (NBS) fail to capture this significance, as the bulk of US investment has been carried out through other countries. NBS reports overall US foreign direct investment (FDI) in 2017 of €300 million. China has not approached the importance of any of the top US investment projects. According to the NBS, total Chinese direct investment in Slovakia were €46 million in 2017.[20]

The US is Slovakia's most important export market outside the EU, which is the destination of 85% of Slovak exports. In 2018 3.3% of Slovak goods and services (€2.6 billion) went to the US, 0.9% of Slovak imports came from the US and Slovakia had a trade surplus with the US of almost €2 billion. Over the past years, Slovak exports to the US have seen a growth of around 25% annually.[21] Slovak exports to China amount to 1.7% of overall Slovak exports. In 2018 5.8% of all Slovak imports originated from China and the latter ranked third in the list of countries with which Slovakia had the biggest trade deficit (more than €3 billion).[22]

Waiting for the EU to take the lead

When considering the strategic triangle of US-EU-China relations, the most discussed issue in Slovakia has been the Huawei case. Slovak Telecom admits using various suppliers, including Ericsson, Nokia, Cisco and Huawei. The debate about the security aspects of Huawei technologies has been followed mainly at the level of the parent company of Slovak Telecom: Deutsche Telecom. Neither Slovak Telecom nor Orange intend to have Huawei equipment included in their strategic structures.[23] O2 Slovakia, owned by the Czech financial group PPF and with strong business interests in China, has an agreement with Huawei about strategic cooperation.[24] In a few months there should be a tender in Slovakia for 5G.[25]

Political representatives are divided concerning Huawei. Premier Pellegrini sees no reason to restrain Huawei's activities in Slovakia. 'If we are to talk about cyber security, we should focus on all companies rather than on one', he said.[26] For Pellegrini, Slovakia should not get involved in a trade war with China because of Huawei or with the rivalry between the US and China.[27] Whereas Pellegrini denies receiving any warning from Slovak intelligence about Huawei, the Slovak President Andrej Kiska explicitly said that intelligence recommended his office to not use

19 Hamilton & Quinlan (2019), *op. cit.*
20 National Bank of Slovakia, 'Priame zahraničné investície', https://www.nbs.sk/sk/statisticke-udaje/statistika-platobnej-bilancie/priame-zahranicne-investicie (last access 17/X/2019).
21 'Zahraničný obchod SR – január až december 2018 a rovnaké obdobie roku 2017', Slovak Ministry of Economy, Department of Foreign trade, https://www.mhsr.sk/uploads/files/v6A37K3a.pdf (last access 11/X/2019).
22 Slovak Ministry of Economy, https://www.mhsr.sk/uploads/files/v6A37K3a.pdf (last access 11/X/2019).
23 N. Denník (2019), 'Slovensko je ticho pri rizikách Huawei', 1/II/2019.
24 Aktualne.cz (2019), 'Fischer pozve miliardáře Kellnera před senátory. Má mluvit o vlivu Huawei na jeho O2', 3/III/2019 (last access 14/X/2019).
25 Denník (2019), 'Slovensko je…', *op. cit.*
26 N. Denník (2019), 'Slovensko je pre Čínu ľahký terč', 7/II/2019.
27 Webnoviny (2019), 'Slovensko sa nedá vtiahnuť do obchodnej vojny s Čínou pre spoločnosť Huawei', 12/IV/2019, www.webnoviny.sk/slovensko-sa-neda-vtiahnut-do-obchodnej-vojny-s-cinou-pre-spolocnost-huawei/N (last access 21/VI/2019).

Huawei equipment.[28] The 2018 intelligence report for the first time explicitly mentioned China, noting that Chinese intelligence was active especially in the sectors related to information and telecommunications technologies.[29]

Contrary to the Premier, the Slovak Foreign Ministry appears to be pro-Atlantic. The Slovak officials interviewed have said that Slovakia must choose 'whether it prefers to share data with allies or rivals'. 'Allies' clearly refers to the West and 'rivals' to China. Slovak diplomats expect that the decision concerning Huawei's participation in building up 5G will be made at the EU level, thus protecting Slovakia from retaliatory action by China. Slovakia is slowly starting to make use of EU mechanisms to signal its dissatisfaction with China's behaviour. For instance, it has used the EU Cyber Diplomacy Toolbox to disapprove China's cyber-attacks. [30]

The Slovak authorities are yet to decide whether to introduce any obligatory screening mechanism. So far, Slovakia has mainly tried to attract foreign investment and has not experienced any case that could be deemed overly risky or disadvantageous. Slovakia is largely awaiting other EU member states to define their policies. [31]

Conclusion: a silent European follower

Even if Slovakia is interested in consolidating its relations with China, it perceives itself firstly as an EU member and as an ally of the US. Slovakia's relationship with the US has a strong security dimension and it is based on a shared commitment to democracy and robust economic ties. Relations with China are mostly limited to trade exchanges, which are of lesser importance than with the US. If there is a dichotomy, it is between the West and Russia, rather than with the US and China.

Under the leadership of Lajčák, the Slovak Foreign Ministry prefers to follow the joint European policy towards China. Support for a common EU-China policy reflects the pragmatic approach of a small country using its EU membership as a shield against possible intervention by China. Despite public sentiment locating the country between the East and West and despite some concerns about recent US policies, the government seems firmly committed to the Western camp.

28 Denník (2019), *op. cit.*
29 'Správa o činnosti SIS za rok 2018', SIS 2018 report, www.sis.gov.sk/pre-vas/sprava-o-cinnosti.html (last access 4/VII/2019).
30 Personal interview with four Slovak officials, cited above.
31 Summary from the roundtable Political and Security Aspects of Chinese Investment in Slovakia organised by the Institute of Asian Studies (IAS) in Bratislava on 29 April 2019.

SPAIN LONGS FOR A STRONGER EUROPE IN THE FACE OF US-CHINA ANTAGONISM

SPAIN LONGS FOR A STRONGER EUROPE IN THE FACE OF US-CHINA ANTAGONISM

Mario Esteban & Miguel Otero-Iglesias[1]
Elcano Royal Institute

Abstract

Spain is a US ally and a strong supporter of a rules-based international order that sees in China a challenging, but attractive, economic partner and a key stakeholder for tackling many pressing global issues such as climate change. Therefore, despite growing US unilateralism and China´s assertiveness in supporting non-liberal values, Spain will keep a privileged relationship with the US while trying to avoid being pushed to disengage with China. At the same time, growing rivalry between China and the US makes more evident for Spain the necessity of advancing European integration and strategic autonomy.

The US is a key ally for the defence of Spain and a more significant economic partner than China. That is not going to change in the foreseeable future, despite the deterioration of diplomatic relations between Spain and the US during the Trump Administration. At the same time, the Spanish authorities recognise the need of cooperating with China in many multilateral forums and the extraordinary potential of its economy. Still, growing distrust towards the US is translating into more support for EU integration and strategic autonomy, not into a rapprochement with China, as Spain is increasingly concerned about the repercussions of a rising China on its economic and strategic interests.

Spain-US relations: frayed but unbroken

The US is a key security ally of Spain[2] and its main economic partner outside the EU. Spain first hosted US military bases during Franco´s dictatorship and the transatlantic link reached a higher level with Spain's entry to the North Atlantic Treaty Organisation (NATO) in May 1982. Since then NATO has been one of the pillars of Spain's security. However, despite this enduring defence cooperation with the US, ever since Spain joined the European Economic Community (EEC) in 1986, its foreign policy has been much more aligned with that of France and Germany. The only exception was the second term of the conservative Prime Minister José María Aznar, who privileged relations with the US and the UK, as illustrated by the Azores summit that set the stage for the Iraq War.

The US and Spain have also maintained a privileged economic relationship, based on substantial bilateral investment flows. The US is the largest foreign investor in Spain, with an investment stock of over US$70 billion, totalling over 16% of Spain's total inward FDI stock. US companies provide over 181,624 direct jobs in Spain, eight times more than Chinese companies.[3] At the same time, the US is a top destination for Spanish investors, receiving 14% of Spain's outward FDI in

1 The authors would like to thank Ugo Armanini for his assistance in preparing this chapter.
2 Presidency of the Government, National Security Department (2017), *National Security Strategy,* Official State Gazette, Madrid, p. 39.
3 ICEX Spain Trade & Investment, Executive Directorate Invest in Spain (2019), 'Investment trends and records in Spain', Madrid, p. 17, http://www.investinspain.org/invest/wcm/idc/groups/public/documents/documento/mde1/nde0/~edisp/doc2015414726.pdf.

Although Spanish-Chinese relations are concentrated on economic issues, China is a less significant economic partner for Spain than the US.

2016 and 2017.[4] In addition, the US purchases 5% of Spain's total exports, being the fifth-largest destination for Spanish products and services.

During the Trump Administration, diplomatic relations have deteriorated due to the blatant disregard for multilateralism in facing key global challenges such as non-proliferation, climate change and trade tariffs on Spanish products. This was openly recognised by Spain's Minister of Foreign Affairs, Josep Borrell, during a public event at the Centre for Strategic and International Studies (CSIS) on 1 April 2019, where he lamented the Trump Administration's protectionist economic policies, the President's contempt towards his EU and NATO allies, and his increased use of extraterritoriality when applying US law.[5]

The Spanish government is particularly concerned about how these unilateralist trends materialise in Iran[6] and Latin America. For instance, the Spanish Ministry of Foreign Affairs issued a statement on 17 April 2019 expressing its 'sharp rejection' of the activation of Title III of the Helms-Burton Act, which might severely harm the wellbeing of the Cuban population and Spanish companies operating in Cuba.[7] Minister Borrell publicly rejected the disruptive activities of the US in Venezuela and contrasted its 'cowboy behaviour', based on the threat of the use of force, with the diplomatic-centred approach of the EU and the International Contact Group.[8]

Nevertheless, the US is still regarded by the Spanish government as the most important partner for Spain outside the EU, as Minister Borrell manifested at the above-mentioned event at the CSIS. In addition, economic links between Spain and the US have maintained their vitality. Many Spanish investors in the US are happy with Trump's economic policies of deregulation and tax cuts, including his protectionist policies against China, to the point that the US was the main destination for Spain's outward investment in 2017.

Spain-China relations: keeping the door open

Although Spanish-Chinese relations are concentrated on economic issues, China is a less significant economic partner for Spain than the US. The only area in which Spain´s economic links are significantly more substantial with China than with the US is the import of goods and services, as China is the origin of 8.6% of total Spanish imports, while the US accounts for only 4.5%. Regarding the potential for more rapid growth in exports to China or in Chinese investment, the trend of the last decade, when the Chinese economy was growing at a much faster pace, does not justify a realignment towards China at the expense of the US.

4 AFI (2018), *La inversión española en el exterior se desacelera en 2017*, Madrid, p. 3, https://azure.afi.es/ContentWeb/EmpresasUnicaja/inversion/española/en/exterior/se/desacelera/en/2017/contenido_sidN_1052249_sid2N_1052384_cidlL_1745277_ctylL_139_spN_0_climN_5_scidN_1745277_utN_3.aspx?axisU=informe.pdf.
5 CSIS (2019), 'A conversation with Spanish Foreign Minister Josep Borrell', Washington, https://www.csis.org/events/conversation-spanish-foreign-minister-josep-borrell.
6 Ministry of Foreign Affairs, the European Union and Cooperation (2019), 'La UE, entre Irán y EEUU: de la confrontación al acuerdo', http://www.exteriores.gob.es/Portal/es/SalaDePrensa/Articulos/Paginas/Articulos/20190813_ARTICULO_MINISTRO.aspx.
7 Ministry of Foreign Affairs, the European Union and Cooperation (2019), 'España rechaza el anuncio por parte de Estados Unidos de la aplicación del Título III de la Ley Helms-Burton', http://www.exteriores.gob.es/Portal/es/SalaDePrensa/Comunicados/Paginas/2019_COMUNICADOS/20190417_COMU072.aspx.
8 EFE (2019), 'Borrell acusa a Estados Unidos de ir como "un cowboy" en Venezuela', *El Mundo*, https://www.elmundo.es/internacional/2019/05/08/5cd2a70d21efa09b428b45a2.html.

The days in which China considered Spain its best friend in Europe are gone.[9] Spain is not as eager to receive (or as dependent on) Chinese financial support as during the peak of the Eurozone crisis, and therefore not as accommodating as it was then. The Spanish authorities do not see the rise of China as a threat itself but are increasingly concerned about the implications of Chinese state capitalism on the competitiveness of Spanish companies and the welfare of the Spanish people. This preoccupation is also present in public opinion: according to the Elcano Royal Institute's Barometer, 54% of respondents consider that 'Spain can fear' trade competition from China.[10]

This does not mean that Spain wants to reduce its relations with China. On the contrary, the major Spanish political parties want to increase economic links with China, but want to do so in the framework of a level playing field, as China is no longer a developing country.[11] Along the same lines, Spain welcomes a more active role of China in international organisations and wants to see a stronger Chinese commitment towards a rules-based international order. This interest in promoting further relations with China was translated into the signature of some 20 agreements during President Xi Jinping's visit to Spain in November 2018, which served to update the strategic partnership established between the two countries in 2005.[12]

However, there was no memorandum of understanding on the Belt and Road Initiative (BRI) among the above-mentioned agreements, even though they included one on business cooperation in third markets. Some of the reasons for the Spanish government's reluctance to officially endorse the BRI through a bilateral memorandum with China were later revealed by Foreign Minister Borrell in the wake of his participation in the Second Belt and Road Cooperation Forum.[13] Borrell suggested both normative and practical difficulties related to principles considered essential by the EU (such as financial, social and environmental sustainability plus a level playing field for foreign companies), which are not being properly respected in the implementation of the BRI.

Around the same time, a debate about the use of Chinese equipment for developing 5G networks in Spain was triggered by pressure from the Trump Administration. Spanish authorities do not frame this issue in terms of 'national security', but as a relatively manageable 'network security' issue. This approach is shared by the main telecom operators in Spain, such as Telefonica, and was reflected in the risk-management proposal for 5G networks sent by Spain to the European Commission. According to this perspective, it is not considered necessary to bar Chinese companies from all involvement in critical infrastructures in Spain, but to set rigorous security standards for all 5G providers and operators. Nevertheless, there are complaints about frequent Chinese cyber-attacks on Spanish public agencies and companies, and a growing awareness of China's hybrid threat. The Spanish National Cryptologic Centre warns in its 2019 annual report

9 Mario Esteban (2015), 'Spain-China relations: friends but not partners', in Mikko Huotar *et al*. (Eds.), *Mapping Europe-China Relations: A Bottom-Up Approach*, p. 73-78.
10 The Elcano Royal Institute Barometer (known by its initials BRIE in Spanish) is a periodic survey conducted since 2002 using a representative sample of the Spanish population, focused on the opinions, values and attitudes of the Spanish population towards international relations and Spanish foreign policy. For more information about the BRIE and access to all its editions and technical specifications see http://www.realinstitutoelcano.org/wps/portal/rielcano_en/publications/barometer-rielcano.
11 Elcano Royal Institute (2015), *The 2015 Spanish General Election: Political Parties*' International Priorities, Madrid, p. 30-31, https://especiales.realinstitutoelcano.org/elecciones2016/pregunta/9.php.
12 Presidency of the Government (2018), 'Spain and China further develop strategic relations by signing some 20 agreements', https://www.lamoncloa.gob.es/lang/en/presidente/news/Paginas/2018/20181128sanchez-jinping.aspx.
13 J. Cai (2019), 'Belt and Road reflects reality that China is now a world power, Spanish Foreign Minister says', *South China Morning Post*, https://www.scmp.com/news/china/diplomacy/article/3007351/new-silk-road-reflects-reality-china-now-world-power-spanish.

about how some of those attacks target critical infrastructure to gather information about their vulnerabilities and use spear phishing to conduct cyber spying.[14]

The Spanish authorities consider that the Spain's national screening mechanism on FDI has served the country well in managing the strategic risks associated with foreign investment from China or other countries, although they might revise it in the future to expand the definition of national strategic sectors. Furthermore, they have supported the development of an EU FDI screening mechanism, as some member states lack national instruments of such a kind, leaving a loophole that could be exploited at the expense of EU strategic interests.

Regarding freedom of navigation in the South China Sea, Spain has refrained from direct criticism of China and from explicitly supporting freedom of navigation operations in the area. Nevertheless, some official documents, such as the 'National Security Strategy 2017'[15] and 'A Strategic Vision for Spain in Asia (2018-22)',[16] have expressed veiled concerns about growing Chinese assertiveness in that region and its repercussion on freedom of navigation. Moreover, two Spanish helicopters were supposed to participate in the French Jeanne d'Arc 2018 mission that sailed in May 2018 within 12 nautical miles of the Mischief, Subi and Fiery Cross Reefs.[17]

The impact on Spain of US-Chinese friction

The direct impact of the trade war between the US and China on the Spanish economy is relatively modest as the trade flows between Spain and those countries are not particularly high. Looking at Spanish investment, China only hosts 1% of Spain's outward FDI and even if the US accumulates 14% of the total, most of that investment is oriented towards the US domestic market.[18] This is not to deny concerns about the indirect effects that an intensification of the US-Chinese trade war may have on the Spanish economy due to the central role played by the US and China in the global value chains and about the trade tariffs that the US has already imposed on Spanish products after the WTO Boeing-Airbus case resolution and those that might come in the future.

There is a clear divergence at this moment between the interests of Spain and those of China and the US. As an increasingly open economy, Spain wants a multilateral and rules-based international order with a liberal economic system (trade and investment). This contrasts with the emphasis of the Trump Administration on unilateralism and protectionist economic policies. At the same time, the Spanish authorities consider that China is trying to influence global governance in a way that is not always compatible with a rules-based, open and liberal international order. In that framework, Spanish officials are concerned that the bigger the friction between the US and China,

14 National Cryptological Centre (2019), *Ciberamenazas y tendencias – edición 2019*, Madrid, https://www.ccn-cert.cni.es/informes/informes-ccn-cert-publicos/3776-ccn-cert-ia-13-19-ciberamenazas-y-tendencias-edicion-2019-1/file.html.

15 Spain, Presidency of the Government, National Security Department (2017), *National Security Strategy*, Official State Gazette, Madrid, p. 50.

16 Ministry of Foreign Affairs, the European Union and Cooperation (2018), *Una visión estratégica para España en Asia 2018-2022,* p. 13.

17 Ministry of the Armed Forces (2018), 'Déploiement du groupe "Jeanne d'Arc" 2018 dans l'archipel des Spratleys', https://www.defense.gouv.fr/actualites/operations/deploiement-du-groupe-jeanne-d-arc-2018-dans-l-archipel-des-spratleys; and Mer et Marine (2018), 'La mission Jeanne d'Arc en route vers l´Est', https://www.meretmarine.com/fr/content/la-mission-jeanne-darc-en-route-vers-lest.

18 AFI (2019), *Cómo afecta la guerra comercial a España*, Madrid, p. 6, http://azure.afi.es/ContentWeb/EmpresasUnicaja/afecta/guerra/comercial/españa/contenido_sidN_1052249_sid2N_1052384_cidlL_1866231_ctylL_139_spN_0_climN_2_scidN_1866231_utN_3.aspx.

the more difficult it is going to be to sustain a multilateral order oriented toward maximising absolute gains for the involved parties and ensuring the provision of global common goods.

Managing US-China friction through more European integration

In its relationship with China, the Spanish political elites prioritise absolute economic gains and a constructive integration of China in a multilateral international order capable of guaranteeing the provision of global public goods. Therefore, Spain does not support a containment policy against China, nor does it follow a zero-sum logic when it comes to its relations with Beijing. Spain's leaders do not want to take sides between the US and China, but, if forced, in a bipolar world in which the EU has not yet developed strategic autonomy, Spain would side with the US because of economic and strategic interests, in addition to the obvious affinities in values and political systems.

Despite this, the Spanish authorities are clear in their view that the most effective way to achieve a more balanced relation with the US and China is to negotiate through a coherent EU position based on enhanced political integration and capabilities.[19] In this regard, there is a strong consensus in Spain among the main political parties for a more integrated and autonomous EU defence and foreign policy, as the US is a less reliable partner and China is a more formidable challenge. This has been reflected, for example, in an active participation in the European Defence Fund, Permanent Structured Cooperation and in the project to build a sixth-generation European Fighter Jet and in the promotion of the euro as an international currency.

A much more controversial topic in Spain is whether developing cutting-edge technology in key economic and strategic sectors requires a more ambitious industrial policy that will give a bigger economic role to the state and undermine competition inside the EU at the expense of consumers and non-hegemonic companies. Spain is much more willing to support Franco-German leadership in European consortiums in European digital platforms, cloud infrastructure or Artificial Intelligence, following the Airbus model, than in supporting Franco-German champions. At the same time, even if Spain would like to see as many member states involved as possible in these initiatives, it does not want to sacrifice ambition in the scope of integration for the sake of inclusion.

Lastly, the only plausible scenarios in terms of change of government in Spain that could significantly alter relations with the US or China would be a government led by Podemos (negative for Spanish-US relations) or a government led by Ciudadanos (negative for Spanish-Chinese relations). Both scenarios are extremely unlikely in the foreseeable future.

19 J. Borrell (2019), 'Europa, entre China y EEUU', *La Vanguardia,* https://www.lavanguardia.com/internacional/20190325/461208061029/europa-china-eeuu.html; and J. Borrell (2019), 'Por un relanzamiento europeo', *El País*, https://elpais.com/elpais/2019/05/08/opinion/1557324263_937289.htm.

LITTLE TO CHEER ABOUT: SWEDEN IN THE FACE OF US-CHINESE RIVALRY

LITTLE TO CHEER ABOUT: SWEDEN IN THE FACE OF US-CHINESE RIVALRY

Björn Jerdén[1]
The Swedish Institute of International Affairs

Abstract

Faced with the prolonged US-Chinese rivalry, the Swedish government sees significant risks to its interests in economic growth, a functioning multilateral trade order and even the promotion of democratic values abroad –a traditional driver of its foreign policy–. Stockholm has been openly critical of several aspects of the Trump Administration's foreign policy, and Trump himself has pointed to Sweden as an example of the dangers brought about by an embrace of an open-border policy. Nonetheless, Sweden has kept its direction, originating in the early 1990s, of gradually deepening security ties with the US. Sweden's relationship with China, meanwhile, has acquired features reminiscent of how Japanese-Chinese relations used to be described: 'hot economics, cold politics'. In other words, bilateral trade and incoming Chinese investments have grown to record figures in the last couple of years, while other aspects of the relationship have seen an unprecedented level of open disagreement. The case of Gui Minhai, a Swedish citizen held in Chinese captivity since 2015, has brought public attention and repeated government demands for his release. Since early 2018, the Chinese Foreign Ministry has frequently criticised Swedish media, activists, scholars, politicians and government agencies for their portrayal of China, while the Swedish media discourse and public opinion on China have turned more negative. In a recent policy paper on China, the Swedish government follows the EU line in moving the relative weight between opportunities and challenges in the relationship towards the latter.

Sweden and the US: steady security cooperation despite disapproval

The US is Sweden's biggest trade and investment partner outside of Europe. 1,397 US companies employ 73,996 people in Sweden.[2] Sweden is one of six EU member states outside NATO. During the Cold War, Sweden upheld an official line of neutrality in wartime and non-alignment in peacetime. In practice, however, Sweden conducted secret defence planning with the Western powers to receive support in the event of a crisis, which has subsequently been called the 'secret alliance'. Today, Sweden no longer claims neutrality in the event of an attack on another EU or Nordic state. The change has taken place in tandem with closer security ties with NATO and with the US, both bilaterally and trilaterally together with Finland (also a non-NATO member).[3] Especially since the Social Democrats returned to power in 2014, further deepening the security relationship with Washington has been a priority. Stockholm's undisguised frustration with the Trump Administration's approach to multilateral cooperation has not altered this strategy.

1 The author would like to thank Charlotte Svensson and Thu Le for their research assistance. All translations from Swedish are the author's own.
2 Viking Bohman, Björn Jerdén & Åsa Malmström Rognes, forthcoming.
3 Björn Fägersten & Björn Jerdén (2018), 'En moralisk stormakt i post-neutral tappning: Svensk utrikespolitik 2011-2018', *Skandinavisk Tidsskrift for Internasjonale Studier*, vol. 76, nr 4, p. 343-354, https://tidsskriftet-ip.no/index.php/intpol/article/view/1370/2967 (last access 1/X/2019).

The Swedish Security Service has pointed to increasing concerns related to Chinese cyberattacks, acquisition of companies and spying on Chinese refugee communities in Sweden.

Sweden and China: towards 'hot economics, cold politics'?

Sweden was the first non-communist country in Europe to establish diplomatic relations with the People's Republic of China (PRC) in 1950. Moving to recent decades, economic issues have been at the forefront of Sweden's China policy. Between 2000 and 2018 Sweden attracted US$8,170 million in Chinese investments. Due to a couple of major deals in the automotive industry, Chinese investment reached US$4525 million in 2018 alone. By this year, 114 Chinese-controlled companies in Sweden together employed 25,464 people.[4]

This development has been accompanied by a less upbeat atmosphere in other areas of the relationship. To no avail so far, the Swedish government continues to call for the release of Gui Minhai, a Swedish citizen held in Chinese captivity since 2015. The Swedish Security Service has pointed to increasing concerns related to Chinese cyber-attacks, acquisition of companies and spying on Chinese refugee communities in Sweden.[5] The Chinese government, through its embassy in Stockholm, has since early 2018 conducted an extensive public diplomacy campaign with the stated aim of making Sweden's public discussion on China less negative.[6] The campaign has included occasionally harsh criticism of journalists, media companies, human rights activists, scholars, politicians and government agencies. However, Swedish opinion is so far not moving in a direction desired by the Chinese authorities. An opinion survey released by the Pew Research Center in September 2019 shows a marked deterioration in Swedish views on China. With a 17 percentage point increase from 2018, 70% of Swedes now hold unfavourable views on China –by far the highest number among the European countries polled–.[7]

A new government communication on China, released in October 2019, emphasises the importance of defending EU and Swedish interests and values in the relationship, including the development of new legislation when necessary.[8]

Sweden amid growing US-Chinese friction

The recently intensified US-Chinese rivalry is present in the economic, digital and geopolitical spheres.

4 Bohman, Jerdén & Malmström Rognes, *op. cit*.
5 Säkerhetspolisen (2019), 'Swedish Security Service 2018', *Säkerhetspolisen*, https://www.sakerhetspolisen.se/download/18.49c9bb7116a06cb41251b4/1557928465621/Yearbook-2018.pdf; and Troy Enekvist (2019), 'Säpo: Kinas spionage mot Sverige ökar', *Svenska Dagbladet*, https://t.co/ahnu6eRP5o?amp=1 (last access 30/X/2019).
6 Björn Jerdén & Viking Bohman (2019), 'China's propaganda campaign in Sweden, 2018-2019', *UI Brief*, https://www.ui.se/globalassets/ui.se-eng/publications/ui-publications/2019/ui-brief-no.-4-2019.pdf (last access 1/X/2019).
7 Laura Silver, Kat Devlin & Christine Huang (2019), 'People around the globe are divided in their opinions of China', *Pew Research Center*. https://www.pewresearch.org/fact-tank/2019/09/30/people-around-the-globe-are-divided-in-their-opinions-of-china/ (last access 1/X/2019).
8 Regeringskansliet (2019), 'Arbetet i frågor som rör Kina', *Regeringskansliet*. https://www.regeringen.se/4a779a/contentassets/8a6d4e54b01d48ed9c196a252d09aff4/arbetet-i-fragor-som-ror-kina-skr-2019-20-18.pdf (last access 30/X/2019).

Trade and investment

In the view of the Swedish government the trade friction between the US and China pose risks for the health of the Swedish economy, the international trade order and even the promotion of the political values embraced by Sweden.[9] However, the US approach is not without support in Sweden. Jacob Wallenberg, the chairman of Investor AB, a major stakeholder in Ericsson (see next section), has commended Trump's approach in calling for a level playing field for foreign companies in China.[10] Moreover, according to Foreign Minister Ann Linde, 'When it comes to the US criticism of China, we agree with almost everything… But we do not believe in imposing tariffs to punish China'.[11]

The trade friction between the US and China pose risks for the health of the Swedish economy, the international trade order and the promotion of the political values embraced by Sweden.

5G and Ericsson's role

Sweden has no national investment-screening mechanism. However, the issue has appeared on the agenda in recent years, not least in relation to the development of the country's 5G mobile networks. A senior advisor for cyber security at the Foreign Ministry describes Sweden's stance as 'technocratic' and claims that Stockholm finds itself 'late in the game' and should have dealt with these issues at an earlier stage.[12] In August 2019 the government presented a proposal on the protection of national security in mobile networks.[13] In the proposal, permissions to operate networks will require that they cannot be assumed to 'cause harm to Sweden's security'. The Security Service and the Armed Forces will have the right to appeal cases to a General Administrative Court. The government expects the proposed law to come into effect already on 1 December 2019. The Security Service assesses that '[Chinese] Intelligence gathering also takes place through civilian Chinese-owned companies, which are required to share their technology and know-how with the country's military authorities'.[14] The law might thus impact the opportunity of Chinese firms such as Huawei to supply technology to Sweden's 5G networks.

The Swedish company Ericsson is a leading provider of mobile network technology around the world, including the US. In a speech at Sweden's major annual defence policy conference in January 2019, Scott Baum, Special Representative for Industrial Policy at the US Department of Defence, called for Swedish cooperation in ensuring 'secure and resilient communications' and remarked that Ericsson 'is part of the Western democratic free world'.[15] In a phone call to Sweden's Prime

9 Government Offices of Sweden (2019), 'Budget Statement', https://www.government.se/4a6a17/contentassets/e8bf49ea1bbe41fda780895657ae94e0/from-the-budget-bill-for-2020-budget-statement.pdf.pdf (last access 1/X/2019); Government Offices of Sweden (2019), 'The Government's Statement of Foreign Policy 2019', https://www.government.se/speeches/20192/02/the-governments-statement-of-foreign-policy-2019/ (last access 1/X/2019); and Government Offices of Sweden (2018), 'Speech by State Secretary for Foreign Affairs Annika Söder, Swedish Ministry for Foreign Affairs at Atlantic Council Conference. "Navigating a multipolar values world"', https://www.government.se/speeches/2018/06/speech-by-state-secretary-for-foreign-affairs-annika-soder-swedish-ministry-for-foreign-affairs-at-atlantic-council-conference.navigating-a-multipolar-values-world/ (last access 1/X/2019).

10 Emma Hedlin (2019), 'Wallenberg om Trumps tullkrig: "Han har helt rätt"', *Omni*, https://omni.se/wallenberg-om-trumps-tullkrig-han-har-helt-ratt/a/WLpqqj (last access 1/X/2019).

11 Malin Ekman (2019), 'Utrikesministern: "Tog upp jämställdhet – de garvade"', *Svenska Dagbladet, https://www.svd.se/svd-foljde-ann-linde-i-fn-varje-dag-far-jag-hat-tweets (last access 1/X/2019).*

12 Frivärld (2019), 'Seminarium: 5G Och Huawei – Vad ska Sverige göra?', https://frivarld.se/nyheter/seminarium-5g-och-huawei-vad-ska-sverige-gora/ (last access 1/X/2019).

13 Regeringskansliet (2019), 'Ökad säkerhet i framtidens mobilnät', *Regeringskansliet*, https://www.regeringen.se/pressmeddelanden/2019/08/okad-sakerhet-i-framtidens-mobilnat/ (last access 1/X/2019).

14 Säkerhetspolisen (2019), *op. cit.*

15 Folk och Försvar (2019), 'Rikskonferensen 2019 Söndag 12:30', https://www.youtube.com/watch?v=fbx4FGszumk (last access 1/X/2019).

Minister Stefan Löfven in July, Donald Trump reportedly discussed Ericsson's role in 5G networks.[16] Earlier that year, Anders Ygeman, Sweden's Minister for Energy and Digital Development, said that he had not been approached by the US or China regarding Sweden's 5G development.[17] A Foreign Ministry official dealing with cyber security issues claims not to have experienced any pressure from either the US or the Chinese side. One possible explanation, according to the official, is that a certain 'security by obscurity' insulates the policy-making process from outside pressure. A quite broad range of people from different parts of the government are working on these issues, so it might be difficult for outside actors to pinpoint who to approach.[18]

Geopolitics and connectivity: The Belt and Road Initiative and the Indo-Pacific

Sweden has not signed a Memorandum of Understanding with China on participation in the Belt and Road Initiative (BRI). In a European comparison, Sweden has overall not been particularly active in engaging with the project. The ETNC report on the topic from 2016 describes Sweden as adopting a 'cautious', 'wait-and-see' approach.[19] At the first Belt and Road Forum in Beijing in 2017, Anna Johansson, Sweden's Minister for Infrastructure, said that 'China is investing heavily in this project and it is therefore important that Sweden is involved and contributes to a positive development'.[20] At the second Forum in 2019, however, Sweden had no official representation, not even from its diplomatic mission in Beijing.

The recent Swedish policy paper on China points out a number of potential concerns related to the BRI, but the project is not mentioned as an area for Swedish-Chinese cooperation. Moreover, 'related to the security and defence challenges that the growing Chinese global influence entails', the paper says that Sweden 'will strive for the EU and like-minded countries to cooperate and act together… not least within the transatlantic cooperation'.[21] China's Ambassador to Sweden, Gui Congyou, has called for more active Swedish support for the BRI, saying that 'Sweden is not supposed to lag behind other European countries in terms of BRI participation'.[22] In promoting the BRI in Sweden, the Embassy has cooperated with two organisations with a partly overlapping membership: the Belt & Road Institute in Sweden (BRIX) and the China-Sweden Business Council (CSBC). BRIX board members are also active in the Swedish Larouche movement.[23]

The Swedish government has repeatedly criticised China's actions in the South China Sea. In a speech in Washington DC in May 2017, for instance, the Minister of Defence, Peter Hultqvist, said that 'The rule-based world order is challenged by totalitarian regimes and fanatical chaos. And challenges far away are linked to challenges at home. In the South China Sea, China dismisses

16 P.M. Nilsson (2019), 'Vad Löfven och Trump egentligen pratade om', *Dagens industri*, https://www.di.se/ledare/vad-lofven-och-trump-egentligen-pratade-om/ (last access 1/X/2019).
17 Sverigesradio (2019), '5G-Kriget och Huawei – Spioneri, storpolitik och global kapplöpning – Konflikt', *Sverigesradio*, https://sverigesradio.se/sida/avsnitt/1234198?programid=1300 (last access 1/X/2019).
18 Frivärld (2019), *op. cit.*
19 Frans-Paul van der Putten et al. (2019), 'Europe and China's new silk roads', *European Think-tank Network on China*, https://www.ui.se/globalassets/ui.se-eng/research/etnc-report-2016.pdf (last access 1/X/2019).
20 Regeringskansliet (2019), 'Anna Johansson deltar i kinesiskt toppmöte om infrastruktursatsningar', https://www.regeringen.se/pressmeddelanden/2017/05/anna-johansson-deltar-i-kinesiskt-toppmote-om-infrastruktursatsningar/ (last access 1/X/2019).
21 Regeringskansliet (2019), *op. cit.*
22 Embassy of the People's Republic of China in Sweden, 'Ambassador remarks, Chinese Embassy spokesperson's remarks on SvD's article about Belt and Road Initiative', 14/VIII/2018, http://www.chinaembassy.se/eng/sgxw/t1585579.htm. The Ambassador's remarks were a response to an op-ed of which the author of this chapter was one of the co-authors.
23 Sveriges Radio (2019), 'Kinas magiska vapen – Konflikt', *Sveriges Radio*, https://sverigesradio.se/sida/avsnitt/1356612?programid=1300 (last access 1/X/2019).

international law and territorial integrity'.[24] Sweden has also emphasised that freedom of navigation and overflight are crucial for 'free trade and the multilateral trading system'.[25] Swedish official political terminology has not yet adopted the expression 'Indo-Pacific', recently favoured by the US (as well as others, including Australia, France, India and Japan) to identify a wider region connecting the Pacific and Indian Oceans. In this geographical area, Sweden tends to focus on specific sectors and activities. Sweden sees ASEAN as an important counterpart and supports the EU's strategic initiatives in areas such as connectivity and maritime security.[26]

What to expect from Sweden going forwards?

Unless we see a radical departure from the traditional US commitment to the transatlantic alliance, a change in Sweden's policy to establishing deeper security ties with the US is very unlikely in the near future.

Sweden's China policy, meanwhile, is under review. The government's new policy paper on the issue reflects what looks like an emerging national consensus stressing challenges in the relationship. Against this background, at least some minor adjustments towards a tougher Swedish approach seems likely in the coming years. The two biggest opposition parties in the Riksdag, the Moderate Party and the Swedish Democrats, have recently been vocal in emphasising security concerns in the relationship. We could thus expect a right-wing cabinet to be open to a harder line on China in some respects. However, this would be unlikely to entail a major policy reversal. Many parts of the Swedish government and society see plenty of opportunities to increase their dealings with China, and measures corresponding to 'decoupling' are not on the agenda for Swedish policymakers.

Sweden has been sceptical of attempts to secure a European 'strategic autonomy', although its stance on the issue has warmed slightly over the past year.[27] The impending loss of Stockholm's arguably most important EU ally, the UK, has been a contributory factor in this adjustment. In large part, Sweden's traditional scepticism stems from a concern for transatlantic relations; measures that are believed to risk putting the US's commitment to Europe in jeopardy, such as European collective defence, are off-limits.[28] The China factor has so far played little to no part in Sweden's approach to strategic autonomy.[29]

24 Government Offices of Sweden (2019), 'Speech by Minister for Defence Peter Hultqvist on Northern European Security', https://www.government.se/speeches/2017/05/speech-by-minister-for-defence-peter-hultqvist-on-northern-european-security/ (last access 1/X/2019).
25 Government Offices of Sweden (2019), 'Speech at the Foreign Trade University, Hanoi, Vietnam', https://www.government.se/speeches/2017/11/speech-at-the-foreign-trade-university-hanoi-vietnam/ (1/X/2019).
26 Interview with Henrik Chetan Aspengren.
27 Elin Schiffer & Calle Håkansson (2019), 'Frankrike allt viktigare i försvarssamarbetet', *Svenska Dagbladet,* https://www.svd.se/frankrike-en-allt-viktigare-partner-i-det-europeiska-forsvarssamarbetet (1/X/2019).
28 Ulrike Franke & Tara Varma (2019), 'Independence play: Europe's pursuit of strategic autonomy', European Council on Foreign Relations, https://www.ecfr.eu/page/-/ECFR_Independence_play_Europe_pursuit_strategic_autonomy.pdf (last access 1/X/2019), p 42.
29 *Ibid.*, p. 12. Interview with August Danielson.

BETTER THE DEVIL YOU KNOW? US-CHINA STRATEGIC RIVALRY AND THE UK'S CHINA POLICY

BETTER THE DEVIL YOU KNOW? US-CHINA STRATEGIC RIVALRY AND THE UK'S CHINA POLICY

Tim Summers
Chatham House

Abstract

This chapter assesses how growing strategic rivalry between the US and China is affecting the UK's China policy, at a time of wider uncertainty about the UK's future after Brexit. The UK's relations with both the US and China have separately become more divisive and contested in domestic debates, but the US will remain an important partner across many areas of British foreign policy and Brexit could prompt an effort to intensify economic ties with the US. This contrasts with a relationship with China that has grown and broadened over recent years from a much lower base. While the development of China's economy is seen by parts of the government and political elites as offering new opportunities to be sought more eagerly after Brexit, political concerns about certain developments in China have been growing in the UK. A growth in US-China tensions will pull UK foreign policy in a number of potentially contradictory directions, making it more challenging for the UK to engage in its instinctive approach of balancing different interests and relationships as much as possible. These trends can be seen in current debates over digital rivalry and Huawei, trade and investment and initiatives such as the Belt and Road, and geopolitical questions around the South China Sea; examination of these debates suggests that the UK's policy responses will be issue dependent.

Introduction

British foreign policy is in a state of flux, starting with questions over what sort of relationship the UK will seek with the EU after Brexit.[1] Meanwhile, policy towards both the US and China has become more contested domestically, with popular views of the US and China both somewhat mixed.[2] There is therefore much uncertainty about the possible impact of growing strategic rivalry between the US and China on the UK's China policy.

Whatever happens after Brexit, though, the UK's long-standing and highly-institutionalised alliance relationship with the US is likely to continue to be a key feature of British foreign policy, and the government regularly comments on its desire to maintain strong relations with the US, including in dealing with the 'implications of an increasingly assertive China'.[3] But at the same time, domestic political support for the closest of relationships with the US has declined since the Iraq War of 2003, and been further challenged by the reaction to Donald Trump among much of the British public. Structurally, over time UK foreign policy instincts and approaches have tended

1 For an indication of the major questions see Thomas Raines (2019), 'Five foreign policy questions for the UK's next Prime Minister', Chatham House Expert Comment, 18/VI/2019, https://www.chathamhouse.org/expert/comment/five-foreign-policy-questions-uk-s-next-prime-minister.
2 See Wilfred M. Chow, Enze Han & Xiaojun Li (2019), 'Brexit identities and British public opinion on China', *International Affairs*, https://doi.org/10.1093/ia/iiz191.
3 FCO (2018), 'Appendix: Memorandum from the Foreign and Commonwealth Office', submitted to the Foreign Affairs Committee inquiry on 'Global Britain', https://publications.parliament.uk/pa/cm201719/cmselect/cmfaff/780/78008.htm#_idTextAnchor0%2035.

to become aligned more closely with those of its European neighbours than the US; irrespective of Brexit, in general the UK 'thinks about global problems more from a European than from a US or transatlantic perspective'.[4]

Meanwhile, the relationship with China has broadened and deepened over the last two decades from a much lower base.[5] But it too has become more contested over recent years. On the one hand, parts of the government and much of the business community see China's economic development as an important source of new opportunities for British companies, particularly as Chinese demand for services and luxury goods grows, while others argue that the UK must engage China on a range of global challenges such as climate change. On the other hand, there has been growing criticism on political issues, spurred –as in the US and the EU– by a sense that China has become more authoritarian and by controversies from Xinjiang to the South China Sea.

Triangulating with the US has long played a role in Britain's China policy, from differences in the 1950s over recognition of the PRC to managing the Cold War in Hong Kong.[6] After 1989, the UK and other European countries tended to assess the threat/opportunity balance in relations with China somewhat differently from the US,[7] though within the EU, the UK was in the end closer to the US on issues such as the debate in 2004/5 about lifting the arms embargo against China.

More recent differences in British and US approaches to China have been seen in London's more active engagement with Chinese investors such as Huawei over the last decade, and became particularly apparent in 2015 when, in spite of American lobbying, the British government announced it wanted the UK to be a founder member of the Asian Infrastructure Investment Bank (AIIB) proposed by China. The UK's approach in these cases has partly been about seeking economic opportunities,[8] but also reflects an underlying pragmatism in British foreign policy which tends to acknowledge the reality of power and seek to work with changes in its distribution more readily than the US, which is ever worried about peer competition and maintaining its dominance. In the case of the AIIB, the US view that the new multilateral lender posed a revisionist threat seems to have been wide of the mark.

The visit of Xi Jinping to the UK in 2015 marked an upgrading of the bilateral relationship and a turn towards greater economic engagement, at a time when Washington was increasingly hedging against China's rise.[9] The further hardening of China policy in Washington and the intensifying strategic rivalry between the US and China will make it more difficult for the UK to balance different interests and relationships as much as possible, not least as in some areas Washington has been actively lobbying against engagement with China. The ways that this may play out can be seen in debates around several current areas of policy: digital rivalry and critical national infrastructure; the politics of the South China Sea; and the Belt and Road Initiative.

4 Robin Niblett (2007), 'Choosing between America and Europe: a new context for British foreign policy', *International Affairs*, vol. 83, nr 4, p. 627-641.
5 Tim Summers (2015), 'UK-China relations: navigating a changing world', in *Mapping Europe-China Relations: A Bottom-up Approach*, European think-tank network on China.
6 Chi-kwan Mark (2004), *Hong Kong and the Cold War: Anglo-American Relations 1949-1957*, Oxford University Press, Oxford.
7 Scott A.W. Brown (2018), *Power, Perception and Foreign Policymaking: US and EU Responses to the Rise of China*, Routledge, London and New York.
8 See Shaun Breslin (2017), 'UK-China relations in the context of Brexit: economics still in command', *China International Studies*, nr 6, p. 61-73.
9 For the structural shifts in US policy, see Harry Harding (2015), 'Has US China policy failed?', *The Washington Quarterly*, vol. 38, nr 3, p. 95-122.

Digital rivalry and critical national infrastructure

US Secretary of State Pompeo called on the UK not to use Huawei equipment in its 5G networks.

Over the course of 2019, the clearest example of tensions between the UK and US over a China-related policy issue was how to deal with Huawei, already one of the most successful and established Chinese investors in the UK, and an emerging global leader in the provision of 5G equipment. The Chinese Ambassador in London has spoken out in support of Huawei, and the potential opportunities from greater engagement with China.[10] But as two former senior officials testified to the House of Lords in 2018, there had long been 'differences within the Government between those who emphasised the economic value of closer relations with China, and those who prioritised security concerns',[11] and as the 5G issue rose up the policy agenda, security concerns gradually received more attention in the public debate.[12] This was based on arguments about hypothetical risks, rather than any specific evidence of threats to national security from using Huawei equipment. Media reports have suggested that the conclusion of the national security establishment in the UK is that the risks are to network security rather than national security, and that London wants to deal with this as a technical rather than political issue.

However, it has become clear that the UK's approach is not aligned with US preferences. Speaking in London in May 2019, in advance of President Trump's visit, US Secretary of State Pompeo called on the UK not to use Huawei equipment in its 5G networks,[13] echoing similar US lobbying of other European governments. This coincides with numerous well-reported measures taken against Huawei by the US Administration. As of late October it remains to be seen how this issue will be resolved.

The debate over Huawei has been part of a wider discussion about whether Chinese companies should be allowed to engage in areas which might be considered 'critical national infrastructure' (however defined), and how this relates to the UK's long-standing liberal and open approach to foreign investment. One project agreed in 2015 was China's General Nuclear Power Corporation (CGN) stake in the Hinkley Point C nuclear power plant. It was reported that the US lobbied Theresa May to reconsider this project shortly after she became Prime Minister in 2016, and it remains to be seen whether the company will be allowed a majority stake in another project at Bradwell. The US has since added CGN to its 'entity list'.[14]

Maritime politics and the South China Sea

The UK has generally not been a direct player in the US's regional security strategy and alliances in East Asia, and China has not posed a military threat to the UK at home, or to British interests in Asia. But heightened diplomatic and military tensions in the South China Sea have injected a new

10 Liu Xiaoming (2019), 'Britain can and must work with Huawei on 5G', *Daily Telegraph*, 27/IV/2019.
11 House of Lords Select Committee on International Relations (2018), 'UK foreign policy in a shifting world order', House of Lords, p. 19.
12 For example, a series of comment pieces in the *Financial Times* by Charles Parton.
13 Mike Pompeo (2019), 'Remarks delivered at the Centre for Policy Studies', 8/V/2019, https://www.youtube.com/watch?v=EE1XDKK1Cok&t=1s.
14 Christopher Ford (2019), 'Bureaucracy and counter-strategy: meeting the China challenge', remarks at conference on great power competition, 11/IX/2019, https://www.state.gov/bureaucracy-and-counterstrategy-meeting-the-china-challenge/.

element in recent years. Like many other European governments, London was disappointed by China's refusal to engage with the tribunal formed in 2013 under the UN Convention on the Law of the Sea and Beijing's rejection of the ruling in July 2016. From 2015 the US began to intensify its 'freedom of navigation operations' in the South China Sea, and since then there has been pressure for other countries to support these.

Over time, London began to respond, and as of mid-2019 there had been four exercises by British warships in the South China Sea characterised by the government as supporting freedom of navigation. How much this move has been influenced by the US or reflects a desire to align with the US is open to question, though the speech by then Defence Secretary Gavin Williamson in February 2019 implied that there was a US factor to the decision,[15] and the moves have been interpreted that way by commentators who have advocated a more assertive UK posture.[16] The policy has been presented as supporting a 'rules-based international order' rather than responding to any direct threat to UK interests, and has been supported by parliament's Foreign Affairs Committee, which said that it 'welcome[d] the Government's commitment to exercise freedom of navigation in the South China Sea', although it also called for a 'clearer strategic narrative and justification' (and urged the US to ratify UNCLOS).[17] British naval presence on its own will not make a significant difference in the South China Sea, but what appears to be a change in policy response aligns London with Washington and other allies, and has provoked a moderately negative response from Beijing.[18]

The Belt and Road: politics or commerce?

Differences in approach between London and Washington can also be seen in responses to the Belt and Road Initiative (BRI). In general, the UK has engaged proactively with the BRI, seeing it primarily as a commercial opportunity.[19] The then Chancellor (Finance Minister) attended both Belt and Road Forums in Beijing in 2017 and 2019, and described the UK as a 'natural partner' for China in the initiative. But London has also expressed some reservations, called for the initiative to be implemented in a way that promotes 'international standards', and has refrained from signing a formal memorandum of understanding with the Chinese government on the BRI.[20] Overall, though, the broadly positive response from London contrasts with the much more critical approach from Washington, epitomised by Vice-President Pence's comment about a 'constricting belt or a one-way road'.[21]

15 In announcing that the first 'operational mission' of the UK's new aircraft carrier –with both British and US F35s– would include the Pacific, Williamson said this would 'reinforc[e] the fact that the United States remains our very closest of partners'. See Gavin Williamson (2019), 'Defence in Global Britain', speech delivered at RUSI, 11/II/2019, https://www.gov.uk/government/speeches/defence-in-global-britain.
16 John Hemmings & James Rogers (2019), 'The South China Sea: why it matters for 'Global Britain'', Henry Jackson Society, https://henryjacksonsociety.org/publications/the-south-china-sea-why-it-matters-to-global-britain/, p. 10.
17 Foreign Affairs Committee of the House of Commons (FAC) (2019), 'China and the Rules-Based International System', Sixteenth Report of Session 2017-19, House of Commons.
18 For analysis of some of the Chinese interpretations of this policy shift, see Liu Jin (2019), 'Evolution, drivers and implications of the UK's South China Sea Policy', *China International Studies*, January/February, p. 165-180.
19 Tim Summers (2016), 'A platform for commercial cooperation', *Europe and China's New Silk Roads*, European think-tank network on China.
20 The latest statement by the FCO gives more weight to the risks than the opportunities, and it could be surmised that there are differences across government about how best to respond to BRI. See FCO (2019), 'China and the Rules-Based International System: Government Response to the Committee's Sixteenth Report', House of Commons.
21 See https://twitter.com/vp/status/1063652156635402240?lang=en.

The difference in approach to the BRI is partly a reflection of greater openness to power shifts, as with the AIIB (see above). But it also reflects a growing British focus on commercial diplomacy over recent decades. As of 2018 the UK's overall trade with the US was about 15% of its total trade, substantially greater than 7% for China (including Hong Kong and Macao), and the UK runs a trade surplus with the US and a significant deficit with China. But the faster growth in China's economy and its middle class means that there will continue to be economic opportunity in promoting exports to China and cooperating with Chinese companies overseas.

On related issues of global governance of trade and investment, London is more closely aligned to its European neighbours than either the US (especially under the current Administration) or China. The FCO commented recently that it 'share[d] some of the concerns held by the US Government about China's trade practices', but also that it 'work[ed] constructively with China to develop our trading relationship'.[22]

Conclusions

The UK's relations with both the US and China have both become more divisive and contested in domestic debates. As much as possible, London will want to retain its long-standing and institutionalised relationship with the US at the same time as working more with China, especially in commercial areas and on global governance. But the growing US-China strategic rivalry will bring pressure from Washington to side more clearly with the US. Brexit and the prospect of uncertain relationships with Europe will complicate London's calculations further. Still, in the tradition of British foreign policy, seeking to balance its potentially conflicting interests as much as possible is still more likely than an unambiguous strategic turn towards any of the major external powers with which the UK will have to deal.

22 FCO, 'Response', p. 6.

THE EU'S REACTIVE APPROACH TO RISING TENSION BETWEEN THE US AND CHINA

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Bruno Hellendorff
Egmont – Royal Institute for International Relations

Tim Nicholas Rühlig
The Swedish Institute of International Affairs

Abstract

Great power competition brings major issues, and few opportunities to the EU. Since 2016 the EU's trust in the US and China –both indispensable partners– has eroded rapidly. Meanwhile, pressure from Washington and Beijing has dramatically increased, in fields ranging from defence to technology via trade. As the US and China find themselves locked in spiraling tensions, European institutions seek to buttress their autonomy but face considerable challenges in doing so. Current trends point to a worsening geopolitical situation for Europe, while a growing cooperation with likeminded countries may not be enough to sustain the stress of great-power pressure and competition, especially if the EU does not approach the challenges more strategically than is currently the case.

The relations between the EU and both the US and the People's Republic of China (PRC) are in a state of flux. Certainties that have been long held in Brussels are eroding. Intensifying great power rivalry makes the EU a pivotal partner for both the US and China, and both are stepping up their pressure vis-à-vis Brussels on issues and policies they consider vital for international order. The mandate and legitimacy of international agreements and institutions are challenged. Trade is being 'weaponised', meaning that trade flows and agreements are being instrumentalised for strategic influence and security gains. Populism and unilateralism are on the rise. Facing this environment, the EU oscillates between working with the US on issues that antagonise China and working with China on issues that antagonise the US.

A transatlantic bond in need of a 'reset'

The US has been and remains the EU's closest ally and security provider. Since the 1950s transatlantic relations rest on the triad of common values, a security community and close economic relations. US sponsorship of the so-called 'liberal order' and cooperation in international institutions represented the most visible and tangible materialisation of this three-fold alignment.

While transatlantic ties have never been immune to criticism, frustration and divergences, recent developments have cast doubt on the nature and sustainability of this privileged relationship. Donald Trump has become the first US President indicating that he would like to see the EU fail. His 'America First' doctrine is perceived in Europe as predicated upon –and reinforcing– a negative view of America's international commitments and defiance towards multilateralism in general. While at the administrative and technical level, transatlantic cooperation remains strong, the quality of the political dialogue has dramatically eroded. This had an major impact on the European debate over the Union's 'strategic autonomy' as well as on its internal cohesion over European security and its international outlook. Official declarations of European leaders in favour of a stronger common defence agenda have grown more numerous and more straightforward as relations with the Trump Administration apparently deteriorated.

As a new European leadership is poised to take over, the US side has called for a 'reset' of the tranatlantic relationship.[1] However, on substantive issues like trade, climate, arms control, European defence integration or China, profound disagreements are likely to persist.[2]

The EU's growing frustration with China

From the beginning of diplomatic ties in 1975, EU-PRC relations have gradually expanded into a 'comprehensive strategic partnership' comprising not only an annual summit and two high-level strategic dialogues but also more than 60 sectoral dialogues covering all kinds of policy areas. From the European perspective, the aim of a sustained engagement of China was to 'raise the efficiency of the political dialogue' (in the field of global governance), 'promote the economic opening of China' and 'assist China in its internal reform process'.[3]

Since 2016, due to the conjunction of at least three factors in the bilateral relationship, the EU has grown more critical of China.

First, the perception within the EU of China as an unfair competitor has increased significantly. The European business community, traditionally optimistic about Sino-European ties, complained that Chinese pledges –in terms of market access, state subsidies, IPR theft, etc– were poorly implemented. In addition to this apparent lack of reciprocity, Europeans have become more aware of the close links between major Chinese companies and the Chinese Communist Party (CCP), sparking concerns that bilateral commercial and financial ties could be instrumentalised by the Chinese state-party for strategic gains.

Secondly, European assessments of political developments in China proper converged on the negative side of the spectrum. President Xi Jinping's consolidation of power and anti-corruption drive have been largely interpreted as undermining the country's democratic credentials. China's foreign policy became more nationalistic and Beijing's heavy-handed management of social demands for political reforms, in Xinjiang or in Hong Kong, contributed to a more critical perception of China in the EU.

Thirdly, EU officials started to perceive Chinese diplomacy as undermining European unity, at least on occasions. Most visible was China's participation to a sub-regional policy platform, best known as the '17+1' format, with Central and Central-Eastern European countries, including 13 EU member states.[4] Besides, in countries like Hungary and Greece, government officials have refused to criticise China, even when most EU member states were pleading for a strong common position.

Chinese action in third countries, especially through Beijing's so-called Belt and Road Initiative (BRI), had an impact too. Given the sheer size of this multi-billion dollar initiative, its ramifications in and around Europe, and its expected impact on global standards and economic flows (turning more and more Sinocentric), European observers and policymakers saw a pressing need to adopt a more strategic outlook on their relationship with China, both bilaterally and in multilateral settings.

1 https://www.politico.eu/article/trump-administration-wants-to-reset-relations-with-eu/.
2 Erik Brattberg (2019), 'A transatlantic reset won't happen under Trump', Institut Montaigne, 4/IX/2019, https://www.institutmontaigne.org/en/blog/transatlantic-reset-wont-happen-under-trump.
3 From the 2003 China strategy. See https://europa.eu/rapid/press-release_IP-03-1231_en.htm.
4 Justyna Szczudlik (2019), 'Seven years of the 16+1. An assessment of China's "multilateral bilateralism" in Central Europe', Notes d'Ifri Asie, Visions 107, Paris.

The quest for strategic autonomy

In a time of increasing geopolitical tension, European member states generally agree on the concept of strategic autonomy but approach it in different ways.

Russian aggression in Ukraine, the war in Syria, instability in Libya, the constant threat of terrorism and the rise of new challenges such as climate change and cyberattacks constituted as many reasons for European countries and institutions to ponder about their common foreign and security policy. The spiraling rivalry between China and the US further fueled the process.

As relations between Russia and European countries soured, the North Atlantic Treaty Organization (NATO) was re-energised and the EU itself, in the wake of the Lisbon Treaty, sought new ways to work on defence. NATO is devoting more and more attention to the rise of China,[5] with a focus on the implications of Beijing's arms sales, cyber activities and expanding maritime reach as well as its investments in critical infrastructures in Europe. The Alliance sees all these developments as having an impact on the operational conditions faced by the armed forces of its members.

Meanwhile, discussions over Europe's 'strategic autonomy', and the means to attain it, have multiplied. In a time of increasing geopolitical tension, European member states generally agree on the concept of strategic autonomy but approach it in different ways.[6] Lines of fracture have emerged over capabilities (how much and what military resources should be devoted to the EU level), ambition (autonomy to do what?) and institutional arrangements (who controls what?). Nonetheless, several initiatives were taken that buttressed EU involvement in defence and security affairs (the launch of a European Defence Fund, the establishment of the Permanent Structured Cooperation –PESCO–, etc).

Washington adopted a negative view of these developments, thereby contributing to making the debate over Europe's strategic autonomy very focused on the transatlantic question. The Trump Administration expressed concerns over the possibility that defence integration initiatives close the European market to US contractors, or that European efforts would stretch the already limited resources available to NATO. The EU disagreed on both issues, pointing instead at Washington's long-held demand of greater European military efforts, and at the strict limitations enforced by the US in its own market as well as over foreign exports with US-sourced technology.[7]

Meanwhile, China has displayed a generally positive attitude towards European defence integration efforts, as long as they do not target China or affect Chinese interests. Apparently, Chinese views still include the possibility of the process generating some form of 'counterweight' to US supremacy, but with caution and nuances.[8] China's 2019 defence white paper sees it as a way for the EU 'to become more independent in its own security'.[9] Additionnally, a recent policy paper on the EU called for an expansion of 'personnel training and exchange programmes, joint exercises,

5 John Mair & Colin Packham (2019), 'NATO needs to address China's rise, says Stoltenberg', Reuters, 7/VIII/2019, https://www.reuters.com/article/us-australia-nato/nato-needs-to-address-chinas-rise-says-stoltenberg-idUSKCN1UX0YX.
6 Ulrike Franke & Tara Varman, (2019), 'Independence play: Europe's pursuit of strategic autonomy', ECFR, July, https://www.ecfr.eu/specials/scorecard/independence_play_europes_pursuit_of_strategic_autonomy.
7 Daniel Fiott (2019), 'The poison pill: EU defence on US terms?", EUISS Brief, 14/VI/2019, https://www.iss.europa.eu/content/poison-pill-eu-defence-us-terms.
8 Scott W. Harold (2018), 'Chinese views on European defense integration', *MERICS China Monitor*, 19/XII/2018, https://www.merics.org/en/china-monitor/chinese-views-on-european-defense-integration.
9 http://www.xinhuanet.com/english/2018-12/18/c_137681829.htm

The EU is confronted with pressure from both the US and China over the treatment of Chinese tech giant Huawei in the rollout of 5G.

and cooperation in such non-traditional security fields as humanitarian rescue and assistance, peacekeeping and escort missions'.[10] However, Chinese presence and military activities in the Indo-Pacific, where the EU is trying to establish itself as a credible security partner, in Africa, the Middle East or even the Arctic are raising eyebrows in Europe and there is mounting pressure for the EU to tackle the security implications of China's rise in a more straightforward fashion –a pressure that originates in Washington in part, but in some member states and partner countries as well.

The EU between China and the US in the realm of technology, particularly 5G

Since 2018, the EU has been confronted with rising geopolitical tensions between the US and China over the development of the next generation mobile Internet, better known as 5G. This development is part of a broader geopolitical rivalry over high technology, which includes 5G, Artificial Intelligence (AI), semi-conductors, the Internet of Things (IoT) and quantum computing. With the advent of these new technologies come new questions over network security (eg, backdoors) or vulnerability to foreign influence. For the EU economies, which heavily rely on rare earths from China or cloud services and complex softwares from the US, this poses a problem. The risk, which is apparent in the EU lagging behind in its own 5G development plan,[11] is to be caught and overwhelmed by the pace of technological change and competition.

Acknowledging its difficult position, the EU has started to discuss how to achieve a higher degree of technological autonomy, ie, the ability to continue setting industry standards and strengthen European production.[12] At the same time, rather than striving for technological autarky, a goal that is not achievable, the EU seeks strategic options to diversify supply chains in order to reduce dependencies from one or a small number of actors wherever possible.[13]

For the time being, the EU is confronted with pressure from both the US and China over the treatment of Chinese tech giant Huawei in the rollout of 5G. Huawei is profiting from preferential treatment by the Chinese state.[14] A private company on paper, Huawei is suspected of closely cooperating with Chinese intelligence and military institutions even though a smoking gun has not (yet) been found.[15] Estimates over the EU's reliance on Huawei equipment vary. In 4G infrastructure technology, Huawei's market share should be at least 40%, in some member states up to 80%.[16] The US is threatening the EU and its member states with the decrease of intelligence cooperation, while China has made it clear that it could use retaliatory measures in the economic field if Huawei technology were to be banned.[17]

10 http://www.xinhuanet.com/english/2018-12/18/c_137681829.htm
11 Achour Messas *et al*. (2019), *5G in Europe. Time to Change Gear!*, Institut Montaigne, Paris, p. 5.
12 European Political Strategy Centre (2019), *Rethinking Strategic Autonomy in the Digital Age*, European Commission, Brussels; and Alan Beattie (2019), 'Technology: how the US, EU and China compete to set industry standards', *Financial Times*, http://www.ft.com/content/0c91b884-92bb-11e9-aea1-2b1d33ac3271 (last access 28/VII/2019).
13 Tim Rühlig & Björk Maja (forthcoming), 'What to make of the Huawei debate in Europe? Network security and technology dependency in Europe', UI Paper, The Swedish Institute of International Affairs, Stockholm.
14 Bob Seely *et al*. (2019), *Defending Our Data. Huawei, 5G and the Five Eyes*, Henry Jackson Society, London.
15 Mathieu Duchâtel & Francois Godement (2019), *Europe and 5G. The Huawei Case*, Institut Montaigne, Paris.
16 Xuewu Gu *et al.* (2019), *Geopolitics and the Global Race for 5G. CGS Global Focus*, Center for Global Studies, Bonn.
17 Tim Nicholas Rühlig *et al*. (2019), '5G and the US–China Tech Rivalry – a Test for Europe's Future in the Digital Age', *SWP Comment*, nr 29, SWP, Berlin.

On the surface, the 'Huawei debate' centres on two network security risks: espionage or sabotage. However, a close look reveals that China is capable of both regardless of whether Huawei is banned from European 5G networks.[18] At the same time, EU member states have been victim to espionage by means of US equipment as well. The real challenge for Europe is, thus, how far the EU can afford depending on technology that is produced in China, an authoritarian country with which it has no close security cooperation.

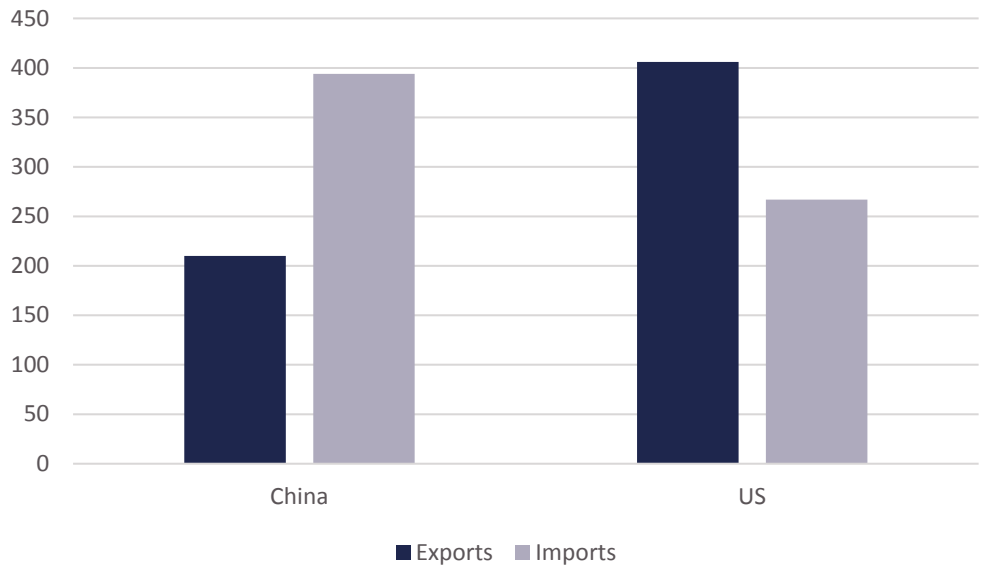
Chinese and US pressure has caught Europe on its backfoot. Originally, EU member states favoured national strategies, but soon recognised the value of a common approach. In reaction, the European Commission has initiated a coordination process. First results of a joint risk assessment were published in October 2019. Political criteria as spelled out in the 'Prague Proposal' are mentioned but are not the prime angle of the document.[19] The EU is about to reject the US demand of an outright and complete ban on Huawei but will most likely adopt measures to tighten security-related criteria for vendors of 5G technology.[20] Most prominently, in October 2019 Germany published its draft measures,[21] which could serve as template for other EU countries. Additionally, the Commission's think tank has recently put forward a number of suggestions to improve the EU's strategic autonomy including privacy/data protection, trade rules, cyber security, government/public procurement, industrial and innovation policy, export control and investment screening.[22]

The EU between China and the US in the realm of trade

According to Eurostat data, in 2018 EU exports of goods to China and the US reached €210 billion and €406 billion, respectively; EU imports reached €394 billion and €267 billion, respectively.[23] Together, China and the US accounted for 31.5% of all EU exports and 33.4% of all EU imports in 2018.

18 Jan-Peter Kleinhans (2019), *5G vs. National Security. A European Perspective*, Stiftung Neue Verantwortung, Berlin.
19 European Commission (2019), 'Europäische Kommission empfiehlt gemeinsames Vorgehen der EU bei der Sicherheit der 5G-Netze', https://europa.eu/rapid/press-release_IP-19-1832_de.pdf (last access 29/V/2019). Also see: NIS Cooperation Group (2019), 'EU coordinated risk assessment of the cybersecurity of 5G networks', Report, 9/X/2019, http://ec.europa.eu/newsroom/dae/document.cfm?doc_id=62132.
20 Rühlig *et al*. (2019), *op. cit*.
21 Bundesnetzagentur für Elektrizität, Gas, Telekommunikation, Post und Eisenbahn (2019), 'Katalog von Sicherheitsanforderungen für das Betreiben von Telekommunikations- und Datenverarbeitungssystemen sowie für die Verarbeitung personenbezogener Daten nach § 109 Telekommunikationsgesetz (TKG) Version 2.0', 9/X/2019, http://www.bundesnetzagentur.de/SharedDocs/Downloads/DE/Sachgebiete/Telekommunikation/Unternehmen_Institutionen/Anbieterpflichten/OeffentlicheSicherheit/KatalogSicherheitsanforderungen/KatalogSicherheitsanforderungen2.pdf?__blob=publicationFile&v=2.
22 European Political Strategy Centre (2019), *op. cit*.
23 Data available at http://ec.europa.eu/eurostat/web/international-trade-in-goods/data/database.

Figure 1. EU trade in goods with China and the US, 2018 (€ billion)



Source: Eurostat.

Ongoing trade disputes between all three partners constitute a challenge for the EU. Threats of US tariffs on European products have surfaced during the early years of the Trump presidency. A first spat erupted in 2018 when the US slapped tariffs on European steel and aluminium, on national security grounds; the EU then responded with its own set of tariffs and an arrangement was found in July 2018, in the form of a new negotiation process.

Since April 2019 the US moved forwards with a plan to impose punitive tariffs on EU products worth US$25 billion,[24] as allowed by a WTO ruling over illegal subsidies granted to the European aircraft company Airbus. The EU has prepared a list of US products worth US$20 billion on which it would impose similar tariffs, once the WTO clarifies its rights in the case it brought up against Boeing.[25]

With regard to China, the EU shares US demands for structural economic reform in the PRC. It is also concerned about China's export of subsidised overcapacities, non-tariff barriers to trade and restrictions on investments and services as well as discriminatory public procurement. After a long focus on cooperative measures, and not least due to the German business association's pessimistic outlook on economic reform in China,[26] the EU has recently reshaped its approach toward China.[27] It is now insisting on reciprocity (a level playing field) as a key condition for maintaining the trading relationship on positive tracks.

24 A first list of products, with a cumulated value of US$21 billion for 2018 was published in April; another, with an estimated value of US$4 billion, was published in July 2019. See notices 84 FR 15028 (12/IV/2019), 84 FR 32248 (5/VII/2019), 84 FR 54245 (9/X/2019) and 84 FR 55998 (18/X/2019), by the Trade Representative, Office of US, in the Federal Register.
25 EU Commission (2019), 'WTO Boeing dispute: EU issues preliminary list of US products considered for countermeasures', Press Release, 17/IV/2019, https://ec.europa.eu/commission/presscorner/detail/en/ip_19_2162.
26 BDI (2019), *Partner and Systemic Competitor. How Do We Deal with China's State-controlled Economy? Policy Paper*, Berlin, BDI.
27 Authors' interviews with officials of the European Commission, the European Parliament, the European External Action Service and the European Council. March-August 2019, Brussels.

As in other domains, the trust and evolution of EU-Chinese trade talks are inseparable from the US-Chinese rivalry. The situation is producing different effects at different times. At the 2018 EU-China Summit, European diplomats felt China was eager to reach a compromise emphasising that it was not isolated in its trade war with the US. A similar concern apparently led China to be less accommodating to its European counterparts in the following Summit, when European demands were expressed in a more direct manner.[28] Meanwhile, the EU position remained cooperative overall: the main deliverable expected from EU-China negotiations is a long-awaited joint investment agreement, which may be concluded by 2020.[29] Still, the EU is demonstrating a willingness to engage China more forcefully on issues of major interest and policy divergence.

Faced with these difficulties, the EU has stepped up its engagement of third countries, mainly via updated free-trade agreements with Japan, the Republic of Korea, Canada, Australia, the Mercosur states, Singapore and Vietnam. The EU also maintains a multilateral agenda, in the WTO and beyond, through which it continues to cooperate with the US (to face Chinese market-distorting practices, forced technology transfers, etc.) and with China (to face US attacks against the multilateral trading order with the WTO at its core).

Looking ahead

For the time being, the EU has adopted a reactive policy approach to the emerging geopolitical tensions between the US and China. But recent policy initiatives such as the Joint Communication on China ('strategic outlook') and the foreign investments screening mechanism, declarations such as Von der Leyen's pledge to make her Commission 'geopolitical' and global developments all point in one direction: the EU is only expecting more heat from the US and China.

Despite potential and actual changes in leadership, some key elements in the EU's outlook should remain steady over the next few years, barring major shifts in the internal or international situation. First, the transatlantic alliance will remain at the heart of European security, and neither the EU nor European countries will want to see NATO lose relevance. Within and through NATO, consideration of the security implications of China's rise will be more acute, but European allies have proved reluctant to make China a priority item in the Alliance's agenda. Secondly, to face what they perceive as a worsening geopolitical environment, European countries will likely see a value on more defence and security cooperation, but the modalities of such an agenda will remain divisive. Thirdly, the EU should and is about to discuss a more strategic industrial policymaking in the ICT sector without banning Chinese vendors outright, including Huawei. Fourthly, the EU's trade agenda will likely include more and more options and interests. Both the US and China are indispensable trading partners for the EU. Brussels simply cannot sidetrack one, even if for the benefit (or by pressure) of the other. The EU has proved willing to adopt a tough line against unilateral tariffs from the US or market-distorting measures by China, if need be, and to be more considerate about political and strategic issues in trade-related affairs. Current trade negotiations with third parties are already enmeshed with an increasing number of political and security agreements. To face China and the US, the EU will therefore likely remain committed to a liberal, multilateral agenda, over which it will continue to seek support from likeminded partners like Japan, Canada or the Republic of Korea.

28 Authors' interview with a European diplomat, Brussels, April 2019.
29 https://europa.eu/rapid/press-release_IP-19-2650_en.htm.