CHINA AT THE GATES:

A NEW POWER AUDIT OF EU-CHINA RELATIONS

François Godement
& Abigaël Vasselier

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london@ecfr.eu

Contents

EXECUTIVE SUMMARY

Since 2009, the time of the European Council on Foreign Relations' first Power Audit, China has become more present and influential within Europe. This is no longer only about a massive trade surplus; it is also about investment, lending, and financial power which serves China's public diplomacy. What has not changed is the asymmetry claimed by China as a developing economy, even as it reaches the first rank among global economies. And it explains the increasing quest for reciprocity by Europeans.

China practises "pick and choose" in its relations with the European Union, focusing on its direct interests, and often ignoring EU norms in its proposals. It has vastly increased efforts to strengthen bilateral relations with member states, putting special emphasis on Europe's periphery. China holds its own summit with central and eastern European nations, the so-called 16+1, and it seized the opportunity of the euro crisis for massive takeovers in southern Europe. Fascinatingly, its offers and their packaging are not very different from those offered to African and other developing nations: a flurry of projects creating competition among recipients, loans at commercial rates, and a strong insistence on identical statements and agreements.

China is now inside Europe. Its soft power diplomacy relies on repetitive and positive messages. There is a gold rush by some European figures, while many companies, media groups, and universities seek to protect their access to the Chinese market.

The EU has been learning from the experience of difficult – or sometimes inexistent – relations. New agreements are missing, even on trade and economic issues which are at the core of the interest for Europe. The agreed Agenda 2020 for political and security cooperation with China is fulfilled only minimally – with human rights and humanitarian aid as the most disappointing areas. This gap is also explained by the opportunistic behaviour of many – but not all – member states. Climate and environment issues seem more promising, but at the 2017 EU-China summit, China held a joint statement on climate hostage to its dispute on market economy status. Europe does not link together different issues. It seeks engagement with China on peacekeeping and support for fragile states, but at best these actions happen only side by side and not jointly.

Europe is turning to realist engagement with China, getting over the mirage of cash from China. China is strengthening its command economy, turning to full state-led industry and technology policies, including their military applications. In Europe, this means acquisition of critical technologies, scientific cooperation agreements mirroring China 2025 goals, and other massive plans to lead the fourth industrial revolution.

A requirement for reciprocal opening has entered European policy statements on China. The European Commission has proposed new trade defence instruments and has expanded an initiative by three core member states on investment screening. This is not a turn to protectionism. Europe seeks engagement rather than confrontation, but must also gear up for a China that is presently unresponsive to its requests.

To do this, this Power Audit of EU-China relations proposes the following priorities:

- Complete the construction of an EU-wide system of investment screening;
- Replace dispersion with common strategies;
- Prevent new investment rules from affecting other aspects of relations;
- Leverage Europe's like-minded partners in Asia.

China inside Europe: Time for realism

China is now firmly inside Europe – not only in the form of goods and visitors, but making itself felt through investment, loans, subregional groupings, public diplomacy and influence, and growing military and defence ties. On any given day, Europe is open; China, meanwhile, is in a process of political and mercantilist closure that undercuts its own surface support for globalisation. This explains why Europeans' demand for 'reciprocity' has become a keyword embedded throughout their statements on China. But it is rapidly becoming clearer that the European Union must also devise policies fit for an era in which China rejects reciprocity. While becoming the world's second largest economy thanks to global trade and finance rules, China refuses to recognise the consequences of this change: in Xi Jinping's words, "China's international status as the world's largest developing country has not changed."[1]

When the European Council on Foreign Relations last studied the balance of power between China and Europe, in 2009, it made a forceful case for 'reciprocal engagement' – that the benefits of developing the relationship should be shared between the two sides of the aisle.[2] Even at that point in time, a more optimistic period was drawing to a close. The 'myth of convergence' of the 2000s – that China, as an economy developing ever more dense relations across the world, would eventually transition to market and rule of law – had already been coming under sustained challenge: in 2007, James Mann's China

1 Xi Jinping, "Secure a Decisive Victory in Building a Moderately Prosperous Society in All Respects and Strive for the Great Success of Socialism with Chinese Characteristics for a New Era", Opening address to the 19th National Congress of the Communist Party of China, *Xinhua* (translation), 18 October 2017, available at http://www.xinhuanet.com/english/download/Xi_Jinping's_report_at_19th_CPC_National_Congress.pdf. Hereafter, "Secure a Decisive Victory in Building a Moderately Prosperous Society".
2 John Fox and François Godement, "A Power Audit of the EU-China relations", European Council on Foreign Relations, April 2009, available at http://www.ecfr.eu/page/-/ECFR12_-_A_POWER_AUDIT_OF_EU-CHINA_RELATIONS.pdf.

Fantasy did much to dispel this illusion. The experience of the near-decade since then has been one of a quiet but dramatic shift. There is now a deeper, and still-growing, imbalance between Europe and China. China has become ever more entrenched on many economic fronts inside Europe – while at home it has in many respects pulled up the drawbridge to Europe.

The 'myth of convergence' has been replaced by a new lore, one that tells Europeans of a cornucopia of potential Chinese investment and contributions, of "an offer you cannot refuse". Europeans still display much credence, not to say credulity, in these myths: from central and eastern European countries attracted to the promises made through China's '16+1' format, to the ambitions that the European Union itself signed up to in 2013 with the EU-China 2020 Strategic Agenda for Cooperation.

Many have begun to see through the tall tales, however; moves are afoot to assert both Europe's values and interests in this evolving relationship. But China, in turn, is at risk of underestimating Europe. Even during these years of great difficulty for the EU, China has found it difficult to circumvent the complex of rules and convention that bind European states – and prospective EU members – together. Yet it still operates on a vision where Europe is a set of sovereign states with a regional organisation that happens to be the EU. The "wind in our sails" hailed by Jean-Claude Juncker in his 2017 state of the union speech has not reached Beijing. The myth of changing the world along European lines may now be a thing of the past. But Beijing risks living in its own world of make-believe, trusting in its own hype, and overestimating its own reach into Europe.

Recognising and responding more fully to this will not be easy in Europe, not least while politicians and publics alike remain transfixed by the spectacle of Donald Trump and 'America First' to their west and an unpredictable and restless Russia to their east.

The Russians may have placed themselves firmly in some Europeans' minds. But the Chinese have placed themselves in Europeans' wallets. It is beyond time now that the EU and its member states draw themselves up to look this fact in the face and decide what it means for them and the people they represent. Mind games are one thing, but money talks; Europeans should start listening to what it is telling them.

China's policy reversals

In 1985, Jacques Delors visited China – and his main public speech extolled the need for Europe to help China become an exporting nation. Mission accomplished, indeed. Now, China is the world's top industrial producer, the top trading nation, the top exporter to Europe, and increasingly also an international investor... It has been hailed as a locomotive for the global economy. It is somewhat extraordinary that China should be considered thus: a state-driven economy that raises huge savings from its citizens at the expense of individual consumption, that has for decades enjoyed huge trade surpluses, and has only very recently become a net capital exporter!

The story at home in China is not one of a greater openness that reflects the rules-based international system. China under Xi Jinping multiplies domestic legal developments, but strictly under one-party rule. This is a story of many checks, but no balances, to borrow from the best definition for the separation of powers: indeed, Xi Jinping at the 19th Party congress spoke of "checks and oversight". China is also undergoing a phase of closure to foreign influence and ideas from abroad – similar to the situation half a century ago. The move towards indigenous economic growth mimics the "self-sufficiency" motto of the Cultural Revolution. This time, it is not a mass upheaval, but an authoritarian modernisation of the centralised party-state. The fate of Liu Xiaobo, the Nobel Peace Prize laureate, and, beyond his death, that of his wife Liu Xia appear to be explicit and voluntary symbols shown to the world. If the narrative since 1978 was of China's slow integration to the international order and adoption of norms, it is turning now towards a systemic clash. Xi has strengthened grip on power, and aftershocks will ripple out from this change. This will require a new set of policies from Europe to withstand the pressure and it will need to maintain the elements of an international system that works on a legal basis and according to values and norms that Europe has increasingly implemented over the past 70 years.

Now, especially in the light of the 19th Chinese Communist Party congress, where President Xi Jinping consolidated his hold on power, the president's "new era" has firmly brought to an end the phase of international restraint that Deng Xiaoping had counselled. Xi vows that China will "become a global leader in terms of composite national strength and international influence".[3] But while the myth of China as a purely positive element of the global economy has receded, it has been overtaken by a new prediction: that massive Chinese

3 "Secure a Decisive Victory in Building a Moderately Prosperous Society".

investment in the 'New Silk Road' and the '16+1' in Europe, as well as in Africa and Latin America, could somehow marginalise Europe's own economic relationship with China. China, seizing on the famous win-win formula from the 1990s globalisation agenda, would isolate the EU, and more generally a West on the defensive. In fact, Europe remains much more open than China. And, in reality, Chinese investments (as opposed to loans) go mainly to the European Union and to the United States.

On the international stage, China has made great play of its commitment to important elements of the global system. Many on the European side have been hoping to see in China a partner that shared an interest in upholding a rules-based world order, especially since the election of Donald Trump. In fact, the areas of increased international responsibility taken on by the Chinese are scarce. On climate change, Donald Trump is seeking to reverse American commitments. But China itself has never signed up to any commitment in a legal sense. Its goals and instruments correlate strictly to its own economic interests, which also include making this sector a key asset for future exports (solar, wind, nuclear). In other areas, China has occasionally demonstrated greater openness – but only so far. On peacekeeping operations, for example, China's contribution represents less than 0.5 percent of its defence budget, suggesting room for improvement for further engagement. On humanitarian aid its commitments are tiny compared to China's overall capacity. With the deliberate dismissal of The Hague's arbitration ruling on the South China Sea, it has shown that it will ignore international law when it does not suit its interests.

The EU's turn to realism

Europe has already begun to respond. Where once Europe was gripped by the illusion of being able to 'change China', the EU and its member states have all but moved on from such notions now. Faith in the rules-based order remains the bedrock of the EU's vision of the international order. But, climate change hopes aside, there is now more hard-headedness in Europe's approach. As the shape of the new China under Xi is starting to emerge, so Europe's approach to its enormous counterpart is beginning to firm up.

On paper, the EU's 2016 "Elements for a new strategy on China" calls for China to take action on a number of key issues: the reform process, reciprocity, an investment agreement, open and rules-based connectivity, global public goods

A dog day's afternoon: the 19th EU-China summit, 2 June 2017

It had all started under the auspices of a welcome dinner hosted for the Chinese prime minister, Li Keqiang, by the three presidents of the European Union – a setting and event which the Chinese participants appreciated..

In the previous weeks, Chinese and European negotiators had hammered out a joint communiqué, completed by a joint statement on climate action. The EU negotiators thought that they had a deal, and that the issue of market economy status (MES) had been sorted out, for the moment at least, with a single sentence, to the effect that "China and the EU are both attached to trade defence under fair terms and under WTO rules". The expectation was that China would desist from its complaint at the WTO once the EU decided on new criteria for anti-dumping. There was much excitement on the EU side at China's "180 degree turn on climate" with its huge investment in alternative energies in early 2017. In anticipation of the Hamburg G20 summit, EU leaders may have thought this was the chance for China to show the preference for multilateralism that Xi Jinping had announced at Davos in January: the EU and China would be seen to salvage together the Paris climate conference deal, isolating Donald Trump and his retreat from this. Li had come from Berlin, where a one-on-one talk with Angela Merkel had gone smoothly. Too smoothly, perhaps. The German side had noted that when, accompanied by his government colleagues, Li sounded a tougher note, rejecting reciprocity in favour of what he termed "political correctness". But the German government had carefully coordinated in advance with the European Commission. As is often her preference, Merkel also smoothed the edges with Li. But this was under the assumption of a coming compromise.

It all unravelled in the morning of 2 June in Brussels. The Chinese unexpectedly asked for a 3+3 high level meeting. There, Li again hashed out the terms of the compromise, and seemed on the verge of accepting it again, when he was overridden by a Mofcom civil servant. They would not desist from their recourse to WTO arbitration unless the EU itself reneged and accepted to grant market economy status. Denying an agreement on trade, the Chinese also denied the lengthy and detailed statement on climate that had been prepared. The Europeans were left speechless. In the course of the two hours delaying press conference, the EU's top trade official would keep the Mofcom participant busy and out of the room in order to let Europe's presidents try and reverse the situation. To no avail.

This was a baroque incident, but not without precedent. In 2008, China cancelled an EU-China summit out of displeasure at an unofficial meeting between the Dalai Lama and the French president, who was supposed to host the summit. In 2009, the then prime minister Wen Jiabao had been overruled by a Chinese official in front of a much larger audience at the Copenhagen Climate Conference. And, in 2016, before the EU took any decision on MES, China had already refused any joint statement at the 18th EU-China summit. It had been a tactical mistake for the EU to announce in advance that there would be joint statements this time around and to display their expectations. This left the actual decision in the hands of the Chinese.

But there are deeper lessons. Firstly, about divisions within the Chinese party-state. To some close German observers in Berlin, Li looked more like a 'trade representative' than an actual prime minister. And, as such, he could perhaps not prevail on Mofcom – a powerful bureaucracy in any case, but in this instance one with higher backing. Li himself may have wished for more flexibility on the Chinese side. In Germany, he had recognised that China "was not ready for a free trade deal", a recognition of the need for domestic reforms of the Chinese economy, but also a contradiction of China's earlier stance on overlooking an investment agreement in favour of a trade treaty. On the EU side, there is also speculation that China's own channels of information about the EU may have been at fault – propagating overconfidence that the EU could reverse its position on MES or accept a deal on trade while China kept its case alive at the WTO. It is also hard to know whether China's top leaders – or leader – have noticed the turnaround in EU strength of the past year: unity in the face of Brexit, a marked economic uptick, and the defeat of anti-EU political forces in the Netherlands, Austria, and France.

and security, rule of law and human rights, and sustainable development.[4] As importantly, it calls for increased cohesion and efficiency of the EU as a tool for these goals. Indeed, this last call has been followed by action. For example, in the face of large trade deficits and a surge of Chinese investment, mostly in western Europe, the EU has made reciprocity in opening up public markets and investment in China a negotiating priority. After treating all Chinese state firms as a single entity, it is crafting new trade defence instruments that will at least match the anti-dumping measures allowed under the terms of China's admission to the World Trade Organization. The EU is also preparing investment screening guidelines on the grounds that they will address the broader security requirements of member states, from public order and critical technologies to future economic security. Both processes require unity inside the EU, and therefore compromise among member states. They are infinitely more realistic and pragmatic than the illusions of the past decade. They mark a clear shift on Europe's part.

EU relations with China have largely divided into three areas. There are impossible topics, such as human rights, for which Europe's definition is rejected by China, and international law when it does not serve China's interests. There are difficult topics, such as security cooperation in a UN framework, and bridging of interests and sometimes values on some global issues such as climate change. Finally, there are bargaining topics, which may not be easy either but where it is in China's interest to find convergence. This mostly concerns trade and investment issues of live interest ever since China's two openings, the first in 1979 and the second in 2001 with its entry into WTO. However, the ground is shifting under these categories. Trade and investment are becoming active points of contention, and may lead to retaliation and damage in other areas. Negative linkage is a dangerous practice for cooperation. China has won plaudits for its recent moves on climate change, but, on one occasion at least it has allowed disputes over trade to impede a joint declaration with the EU on the matter.

China's long arm in Europe

In one sense it is true that China has Europe in its grip, with mottos, acronyms and initiatives. If one were to select just a single example to show how issues have shifted in the last decade from the question of Europe's presence in China

4 High Representative of the Union for Foreign Affairs and Security Policy, "Joint Communication to the European Parliament and the Council: Elements for a new EU strategy on China", JOIN(2016) 30 final, European Commission, 22 June 2016, available at http://eeas.europa.eu/archives/docs/china/docs/joint_communication_to_the_european_parliament_and_the_council_-_elements_for_a_new_eu_strategy_on_china.pdf.

to China's involving itself directly in Europe and its neighbourhood, it would be the Belt and Road Initiative (BRI), as it is currently called. The BRI has achieved fame in Europe, largely because it carries an echo of the ancient Silk Road – the term itself a European 19th century invention. Where the Silk Road carried sought after-goods to Europe, BRI holds the promise of potential windfall from Chinese-financed projects. By becoming the dominant popular narrative for EU-China relations, the series of slogans coined by Xi Jinping in 2013 appealed to Europe on different fronts. It hypes 'connectivity' between Europe and Asia (via China), a fuzzy notion that is wrongly confused with openness. It is emblematic of Europe's until-recent openness to Chinese activity behind its own member states' borders. But it is now likely to become emblematic of both European disappointment in what China is able to offer it, and of European concern that China's trade advantage is moving upstream, into logistics, finance, cyber, and technology siphoning.

For a generation now, goods have flowed westward from China, while the cash proceeds from Europe showed up on China's current account. The BRI is a natural extension of this. But it is far from being a smooth road for China. Eastern Europeans would prefer greenfield investments to loans, and EU rules for public tenders bother Chinese companies used to operate in developing economies. China's soft power – more often than not, financial leverage, has worked better in non-EU states. It is often balanced in the CEE member states by anti-communism based on direct experience. Across Europe as a whole, China's systematic bid to take over the management of literally all ports, its interest in key activities from aerospace to grid networks and data storage, are fuelling the European turn to investment screening. The 2016 raid on German high tech firms also shifted Berlin's position – surely an important factor. In the other direction, investment from the EU to China took a nosedive in 2016. This is largely due to new capital export controls that may challenge profit repatriation, measures that are typical of the Xi era.

Indeed, the rift with Europe is growing wider on economic issues. China's state-driven, hybrid economy has remained divergent from market economies, despite decades of fast growth. The Party-state has confirmed and increased this discrepancy since 2012, creating an authoritarian techno-state with unprecedented means of control on its society and long-term plans for industrial supremacy. The external face of this approach involves purchases and direct investment which China has focused on key sectors and regions of Europe, as it does in the US. Such a mismatch in rules, culture and expectations is leading inexorably towards export of the clash of norms with market economies. On issues ranging from business arbitration to telecoms norms and public-private partnerships, China is now seeking to advance its own standards and views.

A rift almost as deep may be forming on political and security issues, where Europe had high hopes for cooperation. It is not only that China has a strong sense of its own sovereignty. It increasingly also places its own law and norms far above international law – norms and, of course, values. The rule of law will remain central to the EU's approach; as long as there is an EU built on this basis, this will form the basis of its international approach.

The signs of strain are already evident. The EU and China have reached a stalemate in their relationship. The last two summits fizzled out in disagreement, twice preventing the adoption of a joint communiqué. Economic competition is now driving the relationship. The EU's luck is that China's cash as yet does not match its words with those EU countries that can be regarded as the periphery rather than the core. That is because China's own perspective is now global and considers the EU's rules and norms as only a temporary hindrance, that will fall by itself when the process of European fragmentation completes its course. There may be a process of self-intoxication on the part of the Chinese leadership. It is not necessarily very alert to the full sails of many European democracies, nor to growing domestic discontent across Europe about Chinese investment and trade activities. Nor does it connect this discontent with the reservations appearing in emerging economies about its subsidies, and in other industrialised countries about its technology acquisition methods.

Within China, commentaries routinely decry EU norms and rules as a hindrance to business – on a visit to Poland, former diplomat and Chair of the National People's Congress foreign affairs committee Fu Ying suggested that the country in central and eastern Europe that provided the best administrative environment could become the hub of BRI.[5] Indeed, this fits into a larger conception of how the world should function according to China. A key interpreter of European trends, Feng Zhongping, muses that "territorial functions are increasingly inconsistent with actual borders (...) the world needs new systematic arrangements".[6] He underlines China's power to reshape human geography through a huge plan for infrastructure and connectivity, but,

5 "Minutes from the meeting of the Parliamentary Commission of Foreign Affairs on 19 July 2016", Chancellery of the Parliament of Poland, available at http://orka.sejm.gov.pl/zapisy8.nsf/0/466CE4BB2CB9EE2EC1257FFE00328198/%24File/0088108.pdf.

6 Feng Zhongping and Huang Jing, "China-European cooperation on the Belt and Road Initiative: drive, dynamics and prospect", Contemporary International Relations, No. 2 2016, pp. 9-15.

as is always the case in the Chinese narrative, denying any strategy at work beyond a new stage in global development.

Towards a single strategy

Of course, the age-old questions of European division versus European unity remain unanswered on many issues. This is especially the case when it comes to China, about which many are only just understanding that there is a serious question to respond to. While German foreign minister Sigmar Gabriel explains that, "if we do not succeed in developing a single strategy towards China, then China will succeed in dividing Europe", China's foreign affairs spokesperson proclaims Chinese support for European integration.[7] But, she adds "the EU is a regional organisation composed of sovereign states, not a sovereign country itself".[8] Both are right, of course. A fragmenting or even static Europe will be a conflicted Europe; movement towards European integration will increase its leverage. An array of documents detail the EU's relations and ambitions with China; the pile sits atop a mountain of bilateral relations that European countries maintain with China.

How wide is the gap among member states when it comes to China policy? In 2009, the Power Audit identified four distinct groups of member states: ideological free-traders, assertive industrialists, accommodating mercantilists, and European followers. With the exception of the last group, these clusters comprised a mix of economic and political attitudes. Principles – free trade versus protectionism, or human rights versus accommodation – weighed in.

Today, many attitudes have shifted. Who could say that the Czech Republic is the most vocal political critic of China, as it once was? Meanwhile, Slovakia has shifted to rare support for the Dalai Lama, in spite of its interest in Chinese investment. Who could now say that Greece, Portugal, and Spain are among the most economically closed to China? Two trends have changed the score. China's economic influence is now felt inside the EU, with a different calculus of interest for those who need investment from those who do not. Sophistication in dealing with China has also grown, so that member states can more easily entertain split views: interests leading to an accommodating economic view do not imply that the same member state will be politically accommodating, and vice-versa. Certainly, Greece goes all the way. But even

7 "Gabriel warnt Europäer vor Spaltung durch China", *Reuters*, 30 August 2017, available at https://de.reuters.com/article/deutschland-eu-china-idDEKCN1BA1XU.
8 Chinese Ministry of Foreign Affairs, "Foreign Ministry Spokesperson Hua Chunyings Regular Press Conference on August 31, 2017", Press and Media Service, 31 August 2017, available at http://www.fmprc.gov.cn/mfa_eng/xwfw_665399/s2510_665401/t1488873.shtml.

Greece does not lose sight of its interests on a case-by-case basis – recent public tenders are as likely as not to go to bidders other than Chinese companies. Portugal – an "accommodative mercantilist" in 2009 – fears EU investment screening, but made no political concessions to China until very recently, if it never raised human rights. Germany, whose biggest external market is China, now pushes anti-dumping and investment screening by the EU, and it is also among the vocal political critics.

On political issues, there is no fast rule to predict attitudes – individual politicians can change the mood, sometimes within the same party. Thus Theresa May, for security and possibly ideological reasons, has shifted UK policy on China from the Cameron-Osborne era. On economic interests, one can indeed attempt to see categories, but they stem from expediency rather than from economic doctrine.

In 2009, there was a gap that largely separated northern from southern Europe. Today, if a dynamic core – in itself the best news that one could possibly get from the EU – does not carefully craft compromises with others on the periphery, and if it does not reinforce commitments with this periphery, it risks China playing that division between core and periphery. But there is no single periphery. In a nutshell, northern Europeans want policies focused on their own access to the China market. Eastern Europeans look to Chinese investment in order to supplement falling EU subsidies in the near future. Southern Europeans have already received significant Chinese investment, and, like eastern Europeans, they increase their economic options by welcoming new entrants. These peripheries are not united and so any coalitions between them risk becoming excessively complex.

Some can be tempted to bargain away issues that are secondary for them. That is the real lesson from recent Hungarian or Greek stands on human rights and South China Sea issues – it is also clear that on these issues, they could ignore friendly pressure from some core European member states.

Chinese offers do strengthen the bargaining hand of the smallest or weakest inside Europe. More solidarity and shared economic interest is a necessary response. The forthcoming departure of the UK removes an obstacle to unity on pure trade issues. A Franco-German duo has emerged and is in the driver's seat as the core. It is enlarged to Italy as two recent letters and a non-paper on investment screening to the EU Council have done. It could also be seen by others as somewhat bizarre, since these three countries have captured the lion's share of Chinese investment.

If core countries do not prioritise taking a stand on values and issues regarding international law, it is also difficult to expect that others, which were in "followers" category in the past, will do more. Some will, because of the beliefs of their leaders, others will on the contrary trade away some of these issues. On trade and investment, a real break among Europeans in negotiations with China would strike at the heart of the EU. The separate Norwegian free trade agreement with China could be an early warning signal in this respect.

Europe's leverage

For years, China and the EU have failed to find an agreement on either a partnership or an investment agreement. A partnership and cooperation agreement (PCA in EU parlance) would require more common ground on values. Over the past five years, China has not taken a great interest in an investment agreement that would require changes to its economy. It has rather sought a guarantee against anti-dumping by proposing a free trade agreement. It has also used every bilateral opening with member states and beyond – as free trade treaties with Iceland, Switzerland, and ongoing negotiations with Norway and Israel can testify. This flurry of activity coincided with the period of greatest difficulty for the EU, following the 2011 public debt crisis. Yet the EU held together, is facing Brexit in a unitary fashion so far, and even EU governments led by nationalist parties (Hungary, Poland, Greece and to some extent Finland) do not openly challenge the EU's lead on economic issues. Under Jean-Claude Juncker's mandate, realist EU leaders are a tougher partner for China.

But will this suffice to arrive at a more balanced relationship? At present, China views market entry for goods and easy investment opportunities in Europe as a given. The guarantees and reciprocity sought by Europeans from an investment treaty, and the granting to China of a free trade treaty, would clearly require a Chinese opening and concessions creating level playing field conditions that China has never granted. Although new anti-dumping criteria and investment restrictions are annoying to China, avoiding these may not be enough by itself for Chinese leaders to bring about a change of paradigm for their economy. Also, Europe's usually long lead time for decisions has often allowed for a lot of short-term actions by China.

Recapturing the lead

As the conclusion of this report shall show, a shift of attitude must come from China. While official statements seem to reflect a balanced relationship, the reality is that this relationship has advanced in areas of direct interest to China, including some which are not shared with Europe.

Europe must stem this trend even before it moves forward its own goals. These broadly concern: unfair trade practices; strategic investments and other practices which undermine European security; undue influence on public decision-making and the media; and respect for EU rules and unity.

Reciprocity remains a demand which Europe makes of China. It will not be accepted in one day, but Europe must continue to reiterate it, especially when Beijing issues complaints about "discrimination".

Leveraging the interests that Europeans share with other partners of China, including a primary interest in seeing international law prevail, is an essential tool. So is engagement with China, and avoidance of linkage between the various issues in play. China has changed course several times in the past 70 years. One should not give up hope that it will do so again.

Divergent trajectories: From ‘win-win’ to ‘pick and choose’

One sign that it is China that drives the European Union-China relationship is the narrowing of the space for government-to-government debate. Thirty years ago there was space for discussion between Europe and China on Asian issues, global values and European presence in China. Whatever the pledges made, the actual focus of EU-China relations, and even more that with member states, has shrunk to bilateral issues, economic or normative. The EU is now experiencing difficulties in implementing a broader agenda. Debate on global issues is largely confined to those where both China and the EU are unavoidable actors, if very dissimilar ones. Foreign policy talks happen on third countries and areas that are part of Europe’s neighbourhood, and not on those in the Asia-Pacific.

A decade ago, ECFR’s first EU-China Power Audit concluded that Europe was of little importance to China. This judgement was rejected by China’s prime minister of the time, and may seem countermanded by the frequent meetings at all levels between Chinese and EU leaders and officials. But when did China ever cancel a state visit to the United States, as it did with the EU in 2008 over a disagreement about the Dalai Lama? The US-China high level strategic and economic dialogue has never missed a beat. The “Annual” EU-China high level economic and trade dialogue did not happen in 2011, 2012, and 2014.

Still, the density of government and related exchanges between China and the EU, and through mutual visits at the member state level, is almost overpowering. It reflects the Chinese preference for bilateral interactions but also Europeans’ eagerness to compete – with each other – for the attentions of China. The United Kingdom alone had 14 direct ministerial encounters between January 2016 and May 2017. Germany had nine, in addition to a near-on full government-to-government yearly exchange. The UK, Germany, and France compete over strategic (or security) and financial dialogues, while Italy has just obtained an annual meeting between the two prime ministers, and Poland makes good use of its central role in the 16+1 cooperation. The resources and time devoted by China to the maintenance of these contacts is staggering. It contrasts with the scheduling difficulties cited at one time or another for some encounters at the EU level (foreign policy and security dialogue, high level economic dialogue, human rights dialogue).

Beyond bilateral engagement: Agenda 2020

As for the EU itself, these exchanges follow the EU-China 2020 Strategic Agenda for Cooperation adopted in November 2013.[1] This was indeed a genuine pledge to widen cooperation, putting peace and security as the first pillar of the relationship. Overall, it prescribed 94 "key initiatives" in areas covering peace and security, prosperity, sustainable development, and people-to-people exchanges. In the three years that have followed (up to the end of 2016), many of these have led to meetings and statements.

But there have been few formal agreements, and even fewer really new agreements. Some initiatives have seen no implementation at all.

The agreements of importance cover the following areas:

- Scientific and technology cooperation, renewed in 2017 for five years – with an emphasis on innovation, cross-border transfer of R&D results, and a call for reciprocity in access to research, as mandated by the overall EU 2016 China policy document. The related initiatives in energy, aerospace, urbanisation, biodiversity, and social issues have resulted in many projects. This is perhaps the most prevalent form of exchange between China and the member states: agreements having been signed with most of the 28.[2] A 2015 joint declaration on 5G telecom networks fits the same category.
- Cooperation in fusion energy research and in the peaceful uses of nuclear research, endorsed at the EU level since 2008, is also

1 European External Action Service, "EU-China 2020 Strategic Agenda for Cooperation", available at http://eeas.europa.eu/archives/docs/china/docs/eu-china_2020_strategic_agenda_en.pdf.
2 See Dragon Star, "Bilateral agreements between EU Member states/associated countries & China", available at https://www.dragon-star.eu/bilateral-agreements-between-eu-member-states-china/.

currently the object of many agreements by China's ministry of science and technology (MOST) with member states. Most were concluded under the umbrella of ITER, the international nuclear fusion project, but a more specific one was signed with France in March 2017.

- "Strategic cooperation" between Europol and China's Ministry of Public Security (MPS). China has prioritised this type of international cooperation – with a former MPS vice-minister becoming the head of Interpol. Anti-terrorist cooperation has also been a focus of recent Chinese visits to Brussels, and, after a period of reluctance, the EU seems to have accepted the idea of cooperation. Dedicated groups discuss counterfeiting, piracy (of intellectual rights), and illegal immigration.
- Visas, a perennial issue for Chinese visitors (as it is with India), have been the object of an agreement for diplomatic passports, and for facilitation of visa issuance in Chinese cities where there is no European consulate. But this is an area where China has made an ironical start in implementing reciprocity – by putting new obstacles in the way of visa granting to EU visitors.
- Cyber security has been the subject of an annual dialogue for the last five years. Over the same timespan, there have also been numerous attacks on institutions throughout Europe – from the EU to Italy's ministry of foreign affairs, France's ministry of the economy and the UK parliament, that were credited to hackers originating from China.
- Health, epidemics, and food security. The last includes a trilateral EU-China-US cooperation format. The safety of non-food consumer goods is the subject of several agreements – again an issue of shared interest, given China's exports to the EU.
- The "connectivity platform" between Europe and China, a function of China's BRI initiative, has been established as a meeting ground for joint projects. The main result so far is a small fund for SMEs financed by the European Investment Bank and the Silk Road Fund.[3]
- Support for development assistance and a degree of coordination between China and the EU – these are areas where China came to an agreement in principle with the EU at the EU-China 2015 Summit, including in Africa.

3 See Chapter 3, China's Investment in Europe: Opportunity versus Security.

The above list cannot possibly account for numerous meetings relating to most of the 94 items on the agenda. But among the agreements mentioned, only two are new: they concern police cooperation and diplomatic visas (the latter not yet fully completed).

Some omissions from the list of dialogues stand out: Iran and North Korea are addressed in the high-level strategic dialogue, but there have been no issue-specific meetings, projects, or agreements on the strengthening of the non-proliferation regime and related export controls, nor on nuclear security in general. The exception is a 2014 consultation on activities in space that probably contained a discussion on non-nuclearisation. There has been no discussion on a free trade agreement except for two "business summits". This is likely a consequence of the EU prioritising a speedy conclusion of an investment agreement. Negotiations over what is now called a Comprehensive Agreement on Investment had seemed destined for progress in January 2016, but these political intentions have not been confirmed since. Public procurement, an area where the EU has expressed itself strongly, has had very few related meetings and no statement of intent other than renewed EU requests.

"Best practices" in the area of e-commerce (where Chinese companies are the first in the world in sales volume) seem to have been the object of a single bilateral meeting with the relevant European commissioner. There has been no cooperative activity in the following areas: fisheries management (a very touchy subject given the reach of China's fishing fleet), civil aviation (where Chinese companies are now dumping even their Gulf competitors), new energy technologies (where China has a quantitative lead), water policy, and public policy in general. Climate change, the object of several declarations at previous EU-China summits and in the context of the Paris December 2015 Conference, has seen few developments apart from funding for a new emissions trading system. China conducted extensive pre-summit dialogue with the EU but sacrificed the result during the June 2017 summit because of the ongoing dispute over market economy status for China.

In sum, the only new (as opposed to renewed) agreements signed concern crime with Europol, and short-term visa-waivers for diplomats. Literally all other developments have resulted from agreements signed before 2010. One can be therefore forgiven for the conclusion that only where issues fit a narrow definition of China's interests – innovation, security from terrorism, safety standards facilitating exports – does cooperation move ahead.

On other issues, it is hard to pick out clear results from the mass of ongoing dialogues. On human rights (a key initiative of Agenda 2020), a yearly round of talks takes place more and more towards the end of each year: the 2016 dialogue did not happen, with the subsequent session delayed to June 2017. Even before Nobel peace laureate Liu Xiaobo died in Chinese custody, ten human rights organisations had been asking the EU to "suspend the dialogue rather than proceed with a meaningless low-level exercise."[4] This is in the context where a number of member states have completely delegated to the EU their capacity to discuss human rights with China, limiting themselves, at best, to submitting lists of cases to the EU. If member states had been serious in this logic of delegation, a statement from the European Council on Liu Xiaobo would have been released. Instead, there have been declarations by Jean-Claude Juncker, Donald Tusk, Federica Mogherini and the EU Parliament. This is a specific area where complete delegation to the EU cannot replace collective expression by member states. On two different occasions, member states had a chance to signal their position on China's violations of human rights. In March 2016, Ireland, the UK, Germany, the Netherlands, Denmark, Sweden, and Finland signed a joint statement alongside the US, Japan, Norway, and Iceland for the United Nations Human Rights Council. In February 2017, Belgium, the UK, the Czech Republic, Estonia, France, Germany, and Sweden signed a joint letter alongside Australia, Canada, Japan, and Switzerland adressed to the Chinese minister of public security, Guo Shengku. As seen in the decision of the new American administration to refuse to sign the joint letter of February 2017, the burden will fall heavier on the shoulders of those Europeans that choose to position themselves as a global human rights defenders.

Convergence on global issues?

Many of the bilateral consultations concern just that – issues of bilateral interest to China and the EU. But global issues – from climate and the environment to financial architecture, peacekeeping, sustainable development, and cyber issues – also figure in the EU's script. Also, the European interest in China's cooperation on common endeavours and 'rules of the road' has strengthened considerably very recently, due to two factors: the new Trump administration distancing itself from international institutions and many multilateral commitments; and Xi Jinping proclaiming an almost symmetrical move by China to strengthen its multilateral contributions. Indeed, Xi Jinping's Davos

4 "EU: Suspend China human rights dialogue", Human Rights Watch, 19 June 2017, available at https://www.hrw.org/news/2017/06/19/eu-suspend-china-human-rights-dialogue.

speech made news – and may have been designed to do just that.[5] Yet on many of these same issues, EU-based European actors now evince considerable scepticism. "They [the Chinese] want to team up with Europe but they don't have the cultural sensitivity."[6] Indeed, one participant, in talks with high-level Chinese officials, reports their retort to European asks on helping with the global migrant burden: "The fact that China is not exporting migrants is already a contribution."[7] One EU official describes China's strategy towards the EU as "deliberately reducing the relationship to trade and investment issues – and messing it up". Another questions the wisdom of the EU's overall agenda: "Is it advisable to try and discuss peacekeeping, in a period where China's stance is increasingly assertive?"[8]

Climate change

Perhaps Europe's biggest hope – and its biggest current disappointment – is on commitments and joint action on the issue of climate change and joint emissions. China signing up to the December 2015 Climate Conference was a milestone, even with commitments that were scheduled for only after 2030 and without verification besides periodic reports on implementation by all signatories. China had earlier impeded progress in this area. And, even though the subsequent course of China's energy policies has been spotty and subject to the need of its industries for markets (thus, another surge in steel production in early 2016 and a rush to export coal thermal plants), its alternative energy programme launched in 2017 indicates a will to immediately shift energy sources rather than play for time. The EU-China Summit of June 2017, a prelude to the G20 Hamburg summit, was thought by Europeans an ideal occasion for China to demonstrate its contribution to fighting climate change. To that end, the EU was willing to co-sign a joint statement that included a call on developed countries to make good on their $100 billion annual contribution to assist developing countries on mitigation and adaptation to climate change. In other words, this was to be at no cost to China.

But the meeting of minds was not confirmed. China punished the EU for withholding market economy status by denying the fruits of tortuous weeks of joint negotiation on climate. In addition, it is possible that China's leadership instead prioritises the bumpy relationship with the Trump administration,

5 François Godement, "Expanded ambitions, shrinking achievements: How China sees the global order", European Council on Foreign Relations, 9 March 2017, available at http://www.ecfr.eu/publications/summary/expanded_ambitions_shrinking_achievements_how_china_sees_the_global_order.
6 ECFR interview in Brussels, July 2017.
7 ECFR interview in Brussels, July 2017.
8 ECFR interview in Brussels, July 2017.

and, in spite of the soft power it would have gained, it does not want to humiliate or otherwise needlessly cross the American president.

Security: A mismatch of interests

With a number of conflicts on its doorstep and American foreign policy uncertain, there is a real need for an assessment of the EU's engagement with China on security issues. In addition, China too is on Europe's doorstep: it has conducted a number of military exercises in the Mediterranean Sea, the Black Sea, and the Baltic Sea and is steadily increasing its military capabilities. "The EU has got to accept that China is an actor with increasing global outreach, more assertive in Asia, and less risk-averse".[9] One example is that after two years China has now made good on its pledge to create an 8,000-strong standby force for UN Peacekeeping Operations.[10]

Europe has an interest in several regions where China's geopolitical footprint is considerable. These include the Middle East and Syria, Africa including South Sudan, Somalia, Mali, and Afghanistan. South-east Asia is also a partner for Europe, on a non-traditional security agenda meant to foster regional trust. The Gulf of Aden anti-piracy joint operation, which includes China's navy, is an instance of positive cooperation. It has not formally ended, and nor has the World Food Program assistance to Somalia and Ethiopia. But piracy has now abated in the area.

But one needs to remain cautious on the scope of further bilateral engagement. China's participation in several United Nations operations, such as South Sudan and Mali, are helpful but they do not feature the EU as a direct partner, although EU staff in Mali have now established some contacts with the Chinese contingent. Other choices made by China can, at times, prompt genuine worry in Europe: at the UN, China has already opposed any further EU navy mandate in the Mediterranean to combat Libyan smugglers. That choice can be contrasted with an open advertisement for inflatable "refugee boats" [sic] on online retailer Alibaba's website which has become the shop of choice for these smugglers.[11] China has expressed reluctance to further engage with the EU on Afghanistan. As one Chinese observer has noted, "it will be difficult for China

9 ECFR interview in Lisbon, September 2017.
10 "China registers 8,000 standby peacekeepers at UN", *Xinhua*, 28 September 2017, available at http://eng.mod.gov.cn/news/2017-09/28/content_4793395.htm.
11 In July 2017, the advertisement was prominent. By early September only typing "refugees boat" into the website would bring up the list of offers, and by 13 September 2017, this had disappeared. See Alibaba website, research "refuge + boat" available at https://www.alibaba.com/trade/search?fsb=y&IndexArea=product_en&CatId=&SearchText=refuges+boat, accessed on 4 September 2017.

to accept the EU as a partner in Central Asia."[12] Nonetheless, given China's interests in the country, Afghan needs, and EU's new strategy on Afghanistan, scope for common engagement does exist.[13] By contrast, Djibouti, which China has now officially termed a "base", is a source of concern: it now a maritime outpost intended to allow an aircraft carrier to dock, a listening post in a troubled environment, and also a base for the People's Liberation Army in east Africa.

Further opportunities could emerge for EU-China cooperation in the few cases where a Chinese special envoy or local embassy engage in mediation, and when China balances its principle of non-interference with rare humanitarian concerns. China says its aid is without strings attached, as opposed to the conditionality of contemporary Western and Japanese aid, though it is, in fact, tied to contracts with Chinese firms. But at least here is an area where China may shoulder increased responsibilities – an important step towards furthering the multilateral system which Xi Jinping claims to defend. On sustainable development, there is no reason why European development agencies and NGOs could not cooperate with Chinese entities, instead of working separately.

On Syria, the lines were drawn early. Any convergence between Europe and China was precluded by hostility to regime change, concern about Uighur fighters on the ground, close Chinese relations with Iran, including the Revolutionary Guard active in Syria. China has above all opposed military intervention (except Russia's), and vetoed alongside with Russia six successive UN resolutions. The EU has not been able to obtain anything from China but a token financial contribution to refugee operations in the region. Instead, China vetoed – with Russia – a resolution sanctioning the Syrian regime after its use of chemical weapons in February 2017. It may be that China's choices are sometimes linked to other strategic issues with the new Trump administration: in April 2017, to every one's surprise, China abstained in a new resolution, again vetoed by Russia, condemning the Syrian government's gas attacks. Meanwhile, Donald Trump had backtracked on his earlier stands regarding Taiwan.

Nuclear and ballistic proliferation is a key issue of global interest for the EU on which China is influential. In the Middle East and north Africa region this

12 Yuqun Shao, "The EU's Central Asia Policy and its implications for China", Discussion paper 9/2008, German Development Institute, p. 22, available at https://www.files.ethz.ch/isn/87929/2008-09e.pdf.
13 Angela Stanzel, "China's interests in Afghanistan", China Policy Institute, 5 September 2016, available at https://cpianalysis.org/2016/09/05/chinas-interests-in-afghanistan/.

might well be for Europeans what the Chinese term a "core interest", given the proximity of these threats. In the case of both North Korea and Iran, China has actually benefited from the international sanction regimes. By 2017 it had cornered 83 percent of North Korea's foreign trade, a figure that is trivial in view of China's overall foreign trade, but vital to North Korea. In the case of Iran, whose top trading partner before sanctions were introduced was the EU, China has surged ahead, narrowly tailing the United Arab Emirates as Iran's second trade partner. The E3 (France, Germany, and the UK) have repeatedly reached out to China in order to obtain common positions on sanctions, and is usually credited with some success in this area. But China criticised the additional sanctions on Iran imposed in 2012, calling instead for "normal and transparent trade and energy exchanges."[14] China has not joined the voluntary Missile Technology Control Regime, but has pledged to abide by its rules, including on exports. Given the ambiguity of UN Resolution 2231, that only "calls for" Iran to refrain from ballistic missile testing, China did not criticise Iran over its 2017 missile tests. The issue will return, since, in the midst of August 2017 North Korean missile showdown, the Iranian parliament voted through a new budget increase for Iran's missile force. The two countries have often been able to rely on each other for implicit support. Within the provisions of the Joint Comprehensive Plan of Action (JCPOA) of July 2015 with Iran, ballistic missiles remain a contentious issue, and some parallels remain with North Korea – including the level of threats involving use of its missile forces emitted by both countries. In the latest stand-off with North Korea, after the launch of a ballistic missile over Japan and a nuclear test for what is widely believed to be an H-bomb, China took a position that remains ambiguous – voting and in fact announcing that it will implement the July 2017 round of sanctions, but proclaiming at the same time that these will not resolve the nuclear issue. This is not a side issue: Europe is directly concerned by Iranian and North Korean ballistic capability.

The South China Sea: Coping with the fait accompli

In other areas, China works directly counter to the EU's international principles. This is the case for the South China Sea, a well-documented case. Beyond this, a striking feature, seen from Europe, is the growing coordination between China and Russia on joint naval exercises and increased military cooperation. Both have been present in the wider international operation to remove chemical weapons from Syria in 2014. "Joint Sea" manoeuvres happened in the eastern

14 "European Foreign Policy Scorecard 2013: Relations with China on Iran and proliferation", European Council on Foreign Relations, 2013, available at http://www.ecfr.eu/scorecard/2013/china/8.

Mediterranean in 2015. After the award from The Hague went against China in July 2016, the two countries held their second "Joint Sea" manoeuvres in the South China Sea. And in July 2017, they conducted the same exercises in the Baltic. But this took place in a wider context of visiting some member states: three Chinese ships undertook a long circumnavigation via the Mediterranean. There, they conducted live fire exercises, a joint exercise with the Italian navy in the Tyrrhenian Sea, and they visited the port of Piraeus, while other ships visited a Romanian port in the Black Sea. They went on through the Atlantic to join the Russian navy in the Baltic, later making port calls in Finland and Latvia.

The move is interesting as it seems to show that global power projection and reciprocal support with Russia are mixed with regional diplomacy. Only six months earlier, China had moved to normalise its relations with Norway. China achieved active cooperation with the Nordic Council in 2016, and it has also gained observer status in the Arctic Council. On the other hand, China also places the Northern Sea Route in the Arctic as an extension of the BRI – and that requires both Russia's continued goodwill and arrangements with Finland and Norway over port logistics and stations.

Foreign policy as an extension of domestic security

In the area of domestic security, there is also a nascent issue in EU-China relations. The ministry of public security (MPS) has been able to cooperate with Europol since 2017. Extradition agreements have been signed with Bulgaria, France, Greece, Italy and Spain, reflecting concern about transnational illegal activities. Chinese police have been briefly allowed on the streets of Rome to reassure Chinese tourists against petty crime. But China has also launched a worldwide campaign to apprehend suspects of corruption. China's criminal code applies the death penalty for this type of crime. MPS agents active in Europe have been able to 'persuade' corruption suspects in Greece and France to return to China by making threats to their relatives in China. One remarkable case has come to light in the United States with the refugee billionaire Guo Wengui.[15] These developments are most certainly disturbing, especially coming hot on the heels of the kidnappings in Hong Kong of a dissident bookseller and a politically connected mainland billionaire, and similar events in Thailand, Laos and Cambodia. They are also likely to be imitated: Vietnamese security

15 Kate O'Keefe, Aruna Viswanatha, and Cezary Podkul, "China's Pursuit of Fugitive Businessman Guo Wengui Kicks Off Manhattan Caper Worthy of Spy Thriller", *Wall Street Journal*, 22 October 2017, available at https://www.wsj.com/articles/chinas-hunt-for-guo-wengui-a-fugitive-businessman-kicks-off-manhattan-caper-worthy-of-spy-thriller-1508717977.

agents forcibly repatriated a Vietnamese national from Berlin in July 2017.[16] North Korea's leader managed to have his wayward half-brother killed at Kuala Lumpur international airport in February 2017. And in August 2017 North Korea's official media issued a "death sentence" for South Korean journalists in Seoul because of what they had written. European cooperation with China over extraditions should be watched in this context, with clear red lines drawn – and implemented.

Partnerships beyond the transatlantic relationship

The risks that an American pullback from globalisation creates should provide a common incentive for the EU and China. Paradoxically, it is Europe that has evinced most anxiety since the election of an American president who has strong arm-twisting and isolationist impulses. China may have regarded this as an opportunity as much as a risk, and it has a much lower threshold for what it requires from the international order. It may in fact agree occasionally with Donald Trump in identifying clear interests as the most secure basis for international relations. Yet these interests seldom coincide, and America's influence is severely diminished if it gives up on the public goods that it delivers internationally.

In the area of security, there is no question that a less credible American security guarantee to allies will result in more defence cooperation among these same allies – a development which the US in fact professes to favour but which also places checks on its own international authority. In the Asia-Pacific, that means cooperation among Asian partners and by them with Europe, seeking to balance China inside the region. Japan has signed defence procurement agreements with France, Germany, Italy, and the UK, and one is in preparation with Sweden. France's submarine deal with Australia – following German sales to Singapore – implicates cooperation over the long term.

Strong partnerships with Asia-Pacific nations are also essential to persuading Beijing that Europeans are not dependent on exchanges with a rising mercantilist China. These partnerships include modern and inclusive free trade agreements (FTAs) such has already been implemented with South Korea. An FTA with Japan is likely to be adopted before the end of 2017, and another one with Singapore should be confirmed by May 2018. That said,

16 "Suspected Vietnamese agent held in Berlin over Cold War-style kidnapping", *Deutsche Welle*, 24 August 2017, available at http://www.dw.com/en/suspected-vietnamese-agent-held-in-berlin-over-cold-war-style-kidnapping/a-40219735.

the benign neglect between India and the EU should end. Although India has its share of the responsibility in its inward-looking nature and absence of international strategy, Europeans are also to blame: there is not one-tenth the degree of cooperation among member states and with the EU inside India or in dealing with India, that exists in the case of China. That India largely ignores the EU is not a delusion – it is because the member states have so little coherence in this respect. Europe and India should set an example through maritime cooperation – in non-traditional security such as natural disasters and rescue operation, in the protection of fishing rights in exclusive economic zones, including for impoverished nations – throughout the Indian Ocean. This would set an example for the practical and legal resolution of issues in the South China Sea issues would be clear. ASEAN, which is now a front line facing China's expansion into the South China Sea, also requires more European presence in that sea.

China also intends BRI for Asia-Pacific countries. In fact, the projects proposed under the BRI umbrella in Europe are far less important than the huge infrastructure investments announced for countries as diverse as Laos, Malaysia, Myanmar, Sri Lanka, Djibouti, and of course Pakistan. It is their public salesmanship that is unified under BRI. By contrast, the main tool of geopolitical influence that Europe possesses in the Asia-Pacific belongs to member states, and it is largely indirect: it is the transfer of weapon systems to several of China's Asian neighbours, and more generally the balancing of engagement with China by closer ties to these neighbours.[17]

The EU should also expand partnerships with central Asian states, building on the 1993 TRACECA initiative. To its credit, since 1998 the EU has run its own Silk Road project with eastern neighbours and central Asian states. TRACECA, in fact, had a welcome focus on facilitating cross-border transit and therefore trade integration.[18] But its limited finances pale in comparison with China's BRI, which has largely consisted of bilateral projects.[19] Very recently, China has taken a leaf out of the EU's book and started to emphasise the importance of cross-border, customs, and logistical issues.

All of the above requires further coordination and intensification of efforts by member states, the European External Action Service and the European

17 Mathieu Duchatel and Mark Bromley, "Influence by default: Europe's impact on military security in East Asia", European Council on Foreign Relations, May 2017, available at http://www.ecfr.eu/publications/summary/influence_by_default_europes_impact_on_military_security_in_east_asia_7288.
18 See: "New Silk Road of 21st century", TRACECA, available at http://www.traceca-org.org/en/home.
19 Council of the European Union, COEST 142 CFSP/PESC, "Council conclusions on the EU strategy for Central Asia", 19 June 2017, available at http://www.consilium.europa.eu/en/press/press-releases/2017/06/19-conclusions-central-asia/.

Commission towards Europe's Asian partners. That coordination and intensification has been just barely achieved in the case of China, where China's strength made it absolutely necessary. It is almost non-existent elsewhere, and neither the EEAS or other sectors of the EU can make up for the predominantly national and deal directed approach of most member states.

The art of talking past each other

The European Commission's June 2016 "Elements for a New Strategy on China" balanced engagement with a request for reciprocity.[20] It is clear that constantly requesting reciprocity does not create leverage in itself, even if it saves Europeans from signing up to make-believe statements and resolutions. Europeans largely deny – or spare? – themselves a key component of leverage: the hard power that would support a strategic relationship with China, be it cooperative or competitive. This is particularly true in the Asia-Pacific. China is the second military power there, and is aiming for future regional parity with the US. Even though some Europeans – mainly France and the UK, be it inside or outside the EU – have a small or intermittent military presence in the region, hard power eludes Europe. Problems do not: conflicts that are brewing in Asia will come to affect Europe, and any flouting of the international order is a contagious example to other regions of the world. Uncertainties over the course of US foreign policy currently aggravate Europe's predicament. It is all well and good for Europeans to sign up with their chief ally, but what exactly are they signing up for if it becomes unpredictable and reactive?

The biggest risk in today's relationship between the EU and China is not of a strategic conflict, it is that the two talk past each other. As evidenced by Agenda 2020, Europe has had immense and diverse hopes of cooperation with China. China has signed up in principle to these goals. In reality, China has focused on much narrower goals in dealing with the EU.

Within Europe, China too has often been talking past the EU. And by doing so, it may have ignored some realities on the ground. Much of the "divide and rule" tactics that China is so often accused of has come from its belief that there was a way to get around the rules of the world's largest single market. The doom and gloom around European integration, brought on by the financial crisis, the rise of so-called populist forces, and the fragmenting

20 High Representative of the Union for Foreign Affairs and Security Policy, "Joint Communication to the European Parliament and the Council: Elements for a new EU strategy on China", JOIN(2016) 30 final, European Commission, 22 June 2016, available at http://eeas.europa.eu/archives/docs/china/docs/joint_communication_to_the_european_parliament_and_the_council_-_elements_for_a_new_eu_strategy_on_china.pdf.

of the international order, may have made Chinese leaders more confident in the merits of exporting the "Chinese way" all the way to Europe. Where China invests, it has indeed largely won over investees, but it has not won over the public and may be losing its hold over governments. It has come up against the fact that the EU institutions and market are strong providers of public goods, structural subsidies, and low interest lending. What worked for China in free-for-all developing economies – often at a great capital or political risk to itself – does not work in the EU, or even in nearby countries. After all is said and done, the EU remains hugely attractive to neighbouring economies and also to individuals, as the flows of students, tourists, refugees, migrants, and "golden visa" attests.

And so in the past few years both sides have failed to move the relationship to a more positive level. At present, they risk bitter conflicts on the core areas of market access and investment. China may refuse to recognise the existing asymmetry and seek to punish Europe for treating China as the non-market economy that it is. It will resent the screening of investment by Europe when China uses its new riches to acquire proprietary technologies in sensitive areas and in infrastructure that forms part of the global transport and logistics chain. China may seek to isolate Europe in its own Galapagos, an archipelago of norms and welfare rules that the rest of the world ignores for the sake of pragmatism.[21] There is just one snag: Europe is not isolated; and other developed and emerging economies have reason to fear China's occasionally ruthless business practices and increasingly imperial economic diplomacy.

Coupled with deeper integration, continued improvement in the European economy – where 2 percent of high quality growth easily matches 6 percent of lower quality and credit-dependent Chinese growth – is recreating a resilience that was not so apparent a few years ago. As this study has shown, Europe's biggest liability lies in the potential divergence of interests between its core and the periphery – whether this periphery is the austerity-marred south, the under-regarded east, or the somewhat complacent north. China's chief weakness lies in its dependence on a cash-based diplomacy, or one that uses the prospect of cash as substitute for common rules and balanced exchanges.

Engagement or confrontation?

China's game with Europe is seldom directly confrontational. Most of its diplomatic efforts are designed to keep controversy out of the relationship,

21 Mark Leonard, "Europe's Galapagos moment", *Politico*, 29 April 2015, available at https://www.politico.eu/article/europes-galapagos-moment/.

and critics conveniently out of the room. This was always the case for sensitive issues such as Taiwan, Tibet and human rights. It now extends to other areas in the relationship: the same agreements are replicated with all member states, and China's diplomacy excels in creating linguistic consensus. For their part, the Chinese will pursue practical policy goals which pertain to their own core interests, and set aside dialogues which were only agreed in principle. This is indeed the main obstacle on which Europe's diplomacy of values stumbles. China will silently register its positions and quickly move on to the next items rather than seek to answer questions or criticism.

The issue for Europeans now is not a choice between engagement and conflict. It is finding the areas where they can leverage their priorities and interests, and dismissing the areas where extensive dialogue is fruitless. This does not exclude repeated attempts at detecting whether Chinese positions change. But it is difficult to justify time-consuming attempts at creating shared goals in many areas if these efforts yield little or no result. Some of these efforts have been justified by reaching out to China's society and therefore preparing for the future, in so-called people-to-people exchanges when they are publicly supported, or by NGOs in their private form. But China itself increasingly circumscribes this form of engagement with a new NGO law. This is at the same time that Chinese public diplomacy, through its media and cultural arms, is much more pervasive inside Europe.[22]

China remains open to the transfer of knowhow and experiences in a broad governance perspective: sustainable development, green cities, future transport, are areas of cooperation which are usually open. If harmless and useful for the planet, these exchanges are also one-way streets to China's benefit, providing useful schemes in the absence of an open public procurement market. China in fact knows how to build cities just as well as Europe does, and it does so on a grand scale in Africa, and with transport infrastructure projects now across south-east Asia. They are just of a type that often does not take into account best labour and environmental norms and practices. And where they are profitable, as is the case with thermal energy plants and solar energy, then China could become a world leader by itself.

Recognising reality is vital. Europeans have tended to focus on the influence of Russia rather than that of China. Russia's lobbying is based on skilful personalities, historical and ideological influence, and sheer manipulation by talented operators. By contrast, China's activity is both broad-based and relying

22 See Chapter 5, Public diplomacy and lobbying: How influential is China inside Europe?

on quantity more than quality. It has extraordinarily repetitive messages, quite openly based on interest rather than on the appeal of an ideology. China's first levers of influence are its own success and consequent attractiveness as a partner, and the supposed benefit of joining early a win-win relationship, including at the level of the individual. In Europe, China's diplomacy spends very little time on publicly countering criticism or opposition directly (it has only done so with respect to Japan and disputes in the East China Sea). Instead, it is solely focused on stressing the mutual benefits of harmonious cooperation.

To rekindle a meaningful relationship of global importance, Europe and China must consider two very different kinds of approach. On Europe's side it needs to demonstrate that its policies towards China have consistency and that they go hand in hand with other partnerships that can also be leveraged with China. Europe also needs to retain the capacity to negotiate workable compromises among its members and associates. China, meanwhile, generally believes what it sees rather than what it hears. On its side, political closure and centralised economic policymaking have reinforced the country's so-called assertiveness in its external relations. It is a tall order for China's rulers to abstain from proclaiming their own model of international relations, and to understand that cooperation, integration, and contribution to international public goods are actually beneficial to China's own future. Yet if they do not achieve this by themselves, win-win mottos may soon be replaced by zero-sum games.

China's investment in Europe: Opportunity versus security

Within the last year, investment issues with China have become more prominent than those connected with trade. In 2016, China's exports to the EU represented more than twice the value of its imports, with a resulting trade deficit in goods of €174 billion.[1] At that time, dumping, trade defence instruments, and the issue of market economy status for China were the hot items. But these are now increasingly being overtaken by trade in services, financial flows, and investment, particularly in the form of M&A activity. Overall figures are both abundant yet hard to verify. According to the well-publicised MERICS-Rhodium report, Chinese outgoing direct investment (OFDI) jumped to $200 billion in 2016 (or 11 percent of global OFDI), of which €35 billion in completed transactions went to European Union countries, a 77 percent increase from 2015.[2] Another study from Ernst & Young study, citing a figure of $85 billion for 2016, includes Switzerland (with the giant Chemchina-Syngenta deal), Norway, and Russia. The EU has no unified instrument for recording foreign investment and acquisitions, and it has effectively outsourced the monitoring of Chinese foreign direct investment (FDI).[3] Eurostat's figures depend on member states' declarations, for which there a fairly substantial time lag (thus, 2015 statistics became available in May 2017), and the quality of its data is debatable.

1 European Commission, Directorate General for Trade, "European Union, Trade in goods with China", 3 May 2017, available at http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113366.pdf.
2 Thilo Hanemann and Mikko Huotari, "Record flows and growing imbalances", Chinese investment in Europe in 2016, n°3, January 2017, p.4, available at https://www.merics.org/fileadmin/user_upload/downloads/MPOC/COFDI_2017/MPOC_03_Update_COFDI_Web.pdf, hereafter, "Record flows and growing imbalances".
3 Under the China Observatory project, the European Commission monitors Chinese investments. First run by Tac Economics until 2014 (www.ChinaObs.eu), the China Observatory project is now managed by Rhodium Group. Quarterly reports are available on the Directorate General for Trade website, available at http://trade.ec.europa.eu/doclib/cfm/doclib_section.cfm?sec=120.

Estimates matter

Still, overall estimates matter. The Ernst & Young study found $12.6 billion invested in Germany, a 25-fold jump, $9.6 billion in the UK (a threefold rise) and $9 billion in Finland (where the previous year saw no significant investment).[4] At a much lower level, Spain, Belgium, and indeed Norway have experienced significant increases. MERICS-Rhodium aggregates the "big three" EU member states, but France only saw only a paltry €0.8 billion investment in 2016.[5] The high figure for northern Europe is largely made by one acquisition – Chinese tech firm Tencent purchased mobile phone game company Supercell from Japanese bank SoftBank for a record €9 billion!

By number of transactions or projects, China amounts to less than 5 percent of FDI in Europe (309 out of 5,845 recorded projects according to Ernst & Young). This should hardly raise eyebrows and is a reminder that other investors – from the United States, Japan, South Korea, and the Gulf States' sovereign funds – have much larger stakes in Europe. And the tiny share of Chinese investment going to eastern Europe (under 3 percent) in 2016 belies the rhetoric of the Belt and Road Initiative (BRI) and Silk Road themes. Of course, none of the above figures record other types of inflows, such as holdings in public bonds, shares under declaratory levels, physical real estate acquisition and, of course, lending. To cite just one example, the sale of 6,500 Hungarian residence permits to Chinese nationals under a "golden visa" scheme amounted to €1.95 billion over three years.[6]

EU dominant position competition rules[7] provide a form of investment screening – but there are almost no other checks.[8] Syngenta was the largest ever Chinese purchase abroad, totalling €53 billion for buyer ChemChina. "If Syngenta [the giant Swiss agrochemical firm] had been taken over by an EU-based firm, we would have had grounds to intervene on the basis of competition laws, but not so for an acquisition by ChemChina", explained one source in Brussels.[9] As with the issue of the founding of the euro without the corresponding budgetary measures, the EU is faced with the consequences

4 Ernst & Young, "Chinesische Unternehmenskäufe in Europa, Eine Analyse von M&A Deals 2006-2016", January 2017, available at http://www.ey.com/Publication/vwLUAssets/EY-ma-chinesische-investoren-januar-2017/$FILE/EY-ma-chinesische-investoren-januar-2017.pdf.
5 "Record flows and growing imbalances", pp. 6-8.
6 ECFR interview in Budapest, April 2017.
7 European Parliament Research Service, "Foreign Direct Investment Screening, a debate in light of China-EU FDI flows", Briefing, May 2017, p.5, available at http://www.europarl.europa.eu/RegData/etudes/BRIE/2017/603941/EPRS_BRI(2017)603941_EN.pdf.
8 Article 21(4) of the EU merger regulation also considers "the protection of public security, plurality of the media and prudential rules" in "Proposal for a regulation of the European parliament and of the Council establishing a framework for screening of foreign direct investments into the European Union », COM/2017/0487 final, 2017/0224 (COD), European Commission, 13 September 2017, available at http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52017PC0487.
9 ECFR interview in Brussels, July 2017.

of a halfway house form of integration. In the Lisbon treaty, investment became, by a stroke of Valery Giscard d'Estaing's pen, an exclusive European competence. One might add that many in the member states, starting from most Treasury types within finance ministries, have no wish to delegate upwards this authority. In 2011, at the height of the euro crisis, the European Central Bank had no way of knowing what amount of member states' debt was held by foreign bond buyers, including China, and it did not know either what percentage of China's vast foreign currency reserves was held in euros. The EU still has no reliable tally of foreign investment, whether financial, M&A, or real estate.

Chinese FDI: spotting the patterns

An EU-wide debate on investment screening has started in the EU. The European Parliament has approved a European Commission proposal, which is now before the European Council.[10] On the face of it, the proposal is wide-ranging and not aimed specifically at China. But China is in fact the main object of this debate, which has many different sides to it.

The first is the fundamental asymmetry between China and the EU in its policies (or lack thereof) when it comes to investment. China forbids foreign investment in 11 sectors, and severely restricts it in other areas as well, thanks to its status as a developing economy. There are all sorts of problems for Western investors, including the near-impossibility of securing arbitration for all practical purposes, the difficulties in moving capital back from China, and challenges to intellectual property rights. Few foreign companies have ever bothered to register a case with the China International Economic and Trade Arbitration Commission. And China has now decided to create its own arbitration rules, separate from the accepted United Nations jurisprudence.[11] A second difficulty has surged to the fore, thanks to policies adopted after 2012: China is now increasingly requiring foreign companies to transfer technology, cede source codes for IT, and generally place servers and storage inside China. All of the above applies to FDI in China, and may be a reason European investment there suffered such a steep fall in 2015 and 2016 – down to €7.7 billion.

The third and most important reason for worry is the targets of China's own investment activity in Europe. While infrastructure projects such as ports

10 "Should foreign investments be screened?", European Council on Foreign Relations, 8 June 2017, available at https://www.mixcloud.com/ECFR/ecfr-discussion-08082017-should-foreign-investment-be-screened/.
11 Anran Zhang, "CIETAC International Arbitration Rules", Leiden Law Blog, 29 September 2017, available at http://leidenlawblog.nl/articles/cietac-investment-arbitration-rules.

or railways are largely achieved through loans which come with promises of future investment attached, acquisitions often target high-tech sectors and niches where China has an explicit goal of achieving world-class levels. They also do not exclude defence and security-related sectors, with the line between civilian and military high tech being hard to define. Unlike the big ticket items for which a few Chinese companies – HNA, Anbang, Fosun – have been publicly known, these purchases are often smaller in value, and are made by much more diversified Chinese or quasi-Chinese firms: state enterprises at the provincial level, investment funds, or Hong Kong- and other offshore-registered companies.

Opacity of the buyers is in itself an issue. A large part of China's external flows goes through offshore markets. Between 2010-14, for example, 70 percent of China's inward FDI flows came from (or through) Hong Kong and UK islands of the Caribbean (UKI), while 66 percent of its outward capital flows followed the same route.[12] Some of these flows are so-called "round tripping" (e.g. Chinese money leaving and coming back as foreign), although since 2015 China's State Administration of Foreign Exchange has required disclosure of the physical owners of firms based in offshore centres when they invest in China. Other obscurities abound: "errors and omissions" (or the difference between China's measured current account and the capital account) reached $178 billion net in outflow for 2016 – a third of China's current account balance. When the government authorised citizens to convert up to $50,000 in hard currency in 2015, the outflow recorded as "tourist expenses" suddenly shot up to $240 billion by the end of 2016. What Hong Kong banks call "ant columns" can in fact be organised through brokers. Some of these trends have been replicated inside the EU. Luxembourg-based funds make up 65 percent of foreign investment into China, while the Grand Duchy's offshore renminbi issuance has overtaken London's since the Brexit referendum, and it is the main centre for Chinese banks in Europe. This is parallelled by a multitude of scientific and technological cooperation agreements, which are sometimes under the aegis of administrations such as China's Ministry of Science and Technology (MOST), or which are sometimes driven by investment funds with multiple owners. More often than not, these contain both state and military-related actors.

Some patterns emerge: Chinese negotiators have identified industries where they would struggle to take over the principal firms but where there are possibilities to be had among ailing European companies, family-owned

12 Ministry of Commerce of the People's Republic of China, China's Outward FDI Flows by Country and Region (2005-14) and China's Absorbed Cumulative FDI from Selected Countries/Regions up till 2014, China Commerce Yearbook 2015, available at http://www.yearbook.org.cn/english/yearbook_view/2015/2015contents.htm.

businesses, and critical suppliers large and small. In this way, Chinese companies have slowly increased their control within supply chains. Another regular occurrence now is when a local company, once taken over, becomes a vehicle for acquiring competitors (for high tech) or simply volume acquisition (for infrastructure and transport). Two examples provide a flavour. In February 2013, the French government allowed a Chinese company, Yantai Taihai, owned by the municipality of Yantai (Shandong), to acquire Manoir Industrie, a family-held medium-sized enterprise that specialises in steel tubing and needles for the civilian nuclear industry, including nuclear waste retreatment, petrochemicals, and high-speed rail. Under Chinese management, the company has developed business in China but also bought other industry-critical companies – in France, Europe, and also in India. It is now close to having a monopoly on the supply of critical parts in nuclear waste treatment plants – a sector where China, as it has a right to under the Non-Proliferation Treaty, has been negotiating the acquisition of the overall process with France for years. In a case relating to transport, HNA acquired Avolon, an Irish aircraft leasing company, for €2.5 billion in late 2016 (a purchase which dwarfs all previous Chinese investment in Ireland). Only a few months later, in April 2017, Avolon bought a US competitor, CIT Aircraft Leasing, for $10 billion. It thus became the world's third aircraft leasing company, with 868 planes. Does all this matter? Yes, if one considers the leverage it affords China on Airbus and Boeing as a very large buyer. A third example is ongoing: Didi Chuxing, China's domestic ride-sharing company that has also taken over Uber's business in China, took over a tiny firm in Estonia, Taxify, under unspecified financial terms. Within months, Taxify is now setting up operations in 35 countries, with price-cutting practices. This competition would seem as only beneficial to customers: but one should note again that a Chinese company is doing abroad what a foreign company cannot do in China.

In the cases above, a common thread is the use of proxies at some stage in the acquisition process. Those two examples differ from each other in that one is in critical technologies and the other in volume industries. But a third example spans both types. In 2012, Shandong Heavy Industry Group, a state-owned enterprise (SOE), bought 75 percent of Ferreti, an Italian luxury yacht manufacturer experiencing financial difficulties. Since then, Ferreti, which already built military fastboats, has expanded to create a naval military division. And in a seemingly unrelated development, in February 2017 the China State Shipbuilding Corporation concluded an agreement with Fincantieri, the Italian shipyard, to produce large cruise ships in Shanghai, which included production technology transfer measures. This is perhaps the only component of the civilian ship industry that China had not broken into. The move coincides with Fincantieri's offer to take over France's STX shipyard, the largest cruise ship builder in the world – but also the drydock where naval units, including the French aircraft carrier, are overhauled. The same month, in a third and still apparently unrelated development, in Abu Dhabi, Fincantieri and Ferretti – now a Chinese firm – signed another cooperation agreement that includes military ships. The square has been circled: Fincantieri has agreed to transfer know-how against a further share of the cruise market while Chinese-owned Ferreti teams up with Fincantieri on military units. This is called, in Chinese parlance, a win-win: China wins twice. In May 2017, the Sino-Italian Chamber of Commerce gave Fincantieri its "Golden Panda" award.

There is a postscript to this story, since the French government has temporarily blocked Fincantieri from taking control of STX. In a very Chinese way, Fincantieri was seeking only 48 percent of shares, but it was joined by Fundazione Trieste which sought a further 7 percent. As this report shall show, the French countermove, sometimes branded industry protectionism, in fact has a lot to do with the future of Europe's naval capacity and the prevention of critical technology transfer. In September 2017, Fincantieri won control of STX – but with an agreement to cooperate with the French military Naval Group.

Security and civilian-military investments: a grand plan?

Beyond the pattern, there is a strategy at work that spans civilian and military sectors, focusing on technology acquisition, future norms, and market share on the one hand and military spin-offs on the other. In fact, as IT hardware, software, and communications dominate the military sector more and more, the issue of dual use is growing beyond all previous notions. China's strategy is a composite put in place in stages – but it has seen a clear acceleration since 2014, and even more since 2016. Several successive national Chinese plans have brought together integrative methods and innovative financing – Internet Plus, China Manufacturing 2025, Innovation, and, most recently, Artificial Intelligence, combined with the centralisation of 100 science and technology programmes into five top-down plans, and the "1000 talents" programme (attracting talent from abroad). The party-state clearly sets priorities and oversees processes. Military goals are built into all plans, and in 2017 a national commission for integrated civilian-military development was created – and is headed by Xi Jinping himself. Among many new Chinese investment funds leveraging capital markets, entering into joint ventures with foreign firms, and investing abroad – 30 defence-related investment vehicles have been identified, and that is probably not the sum of it. These represent about 10 percent of all government "guided funds" that are known.[13] Outgoing FDI has taken a much bigger role, because China's focus is now on acquiring R&D capacities and human resources rather than copying technologies. Special attention is bestowed on integrated circuits (a $100 billion plan is currently in train to expand chipmaking capacity), broadband communications, machine tools, robots and artificial intelligence, space, and aircraft engines. More generally, aviation and shipbuilding industries have tapped the markets through IPOs, bond issuance, bank loans and investment vehicles, many of them placed in shell companies.

Some features of the above-mentioned plans and institutions closely resemble US civilian-military schemes put in place since the 1950s – and for a reason, since there is a lot of institutional borrowing from the American model. A Military Science Research Steering Committee created in 2017 explicitly emulates the U.S. Defense Advanced Research Projects Agency (DARPA), which has been the source of many R&D breakthroughs – including the internet, which started life as Darpanet.[14] Parallels with Germany's Industry 4.0 are much less applicable, because this is a market- and incentive-driven scheme, and because defence implications are secondary. The EU's recent attempts to invigorate some industrial sectors qualify even less, as they essentially rest on some subsidies. Meanwhile, some Chinese plans, such as Manufacturing 2025, clearly go beyond military goals, and are a plan for self-sufficiency and global dominance in the industries of the future such as new energy vehicles, high-tech ship components, new and renewable energy equipment, robots, mobile phone chips, and wide-body aircraft.[15]

The combination of the three factors above – asymmetry between China's relative closure and Europe's open situation, increasing difficulties for foreign investment in China, and a giant plan for the acquisition abroad of civilian and military technology – raises new questions for Europe. Other leading-

13 Tai Ming Cheung et al, Planning for innovation : Understanding China's plan for technological, energy, industrial and defense development, University of California, Institute on Global Conflict and Cooperation, June 2016, available at https://www.uscc.gov/Research/planning-innovation-understanding-china%E2%80%99s-plans-technological-energy-industrial-and-defense.
14 CCTV documentary, "Bringing the reform to the end: the road toward strenghthening the military" (available at https://www.mgtv.com/b/316541/4028193.html), cited in Adam Ni, "China reveals new military technology agency", the *Diplomat*, 28 July 2017, available at http://thediplomat.com/2017/07/china-reveals-new-military-technology-agency/.
15 European Chamber of Commerce in China, "China Manufacturing 2025: Putting Industrial Policy Ahead of Market Forces", 7 March 2017, available at http://www.europeanchamber.com.cn/en/china-manufacturing-2025.

edge industrial societies such as the United States and Japan have also taken notice. A recent study identifies 29 investments from China into US artificial intelligence companies since 2012, and the Committee on Foreign Investment in the United States is considering special measures for investments into AI firms and start-ups generally.[16] A key consideration is that the plans cited above are not hypothetical, but are indeed reflected by the pattern of acquisition throughout Europe. In research on 336 Chinese acquisitions in the EU from 2005 to 2017, ECFR has identified 117 cases out of 336 that are directly related to Manufacturing 2025 targets, showing also that the 2014 policy was not a complete novelty. Of these, 63 relate to the 2014-17 period, among which 42 for 2016 and the first half of 2017.[17] Although 2016 purchases of high-tech German companies, including the widely reported Kuka case, have dominated the news, there is a wide geographical dispersion of these purchases. One knowledgeable observer in France muses that Chinese buyers are very apt at identifying interesting companies, and although they use local nationals or Chinese residents as intermediaries, they do not depend on these. This pattern differs considerably from only a few years ago – in the aftermath of the euro crisis, delegations from China's National Development and Reform Commission visited several major western European countries, asking for pointers to invest sums of at least €250m per project. The same observer studying the new pattern estimates that, while there is no proof positive of a pre-established grand plan, it very much looks like there is one.[18]

Country profiles in this Power Audit back this up. In Poland in March 2017, China Security & Fire proposed the puchase of Konsalnet, a surveillance company that is a contractor to Polish public authorities. The proposal was withdrawn in June of the same year. Another development concerns acquisition of land close to military bases or critical industry sites. In the Baltic states, this mostly concerns purchases relating to Russia. But in the Netherlands – where out of 500 registered Chinese companies, 380 are empty shells – there appears to be a pattern of land purchases close to innovative start-up companies.[19] In Slovenia – another example where the government turned down major Chinese proposals for the acquisition of the main harbour and airport, an airline company, and a new railway line – two developments nonetheless took place in 2016. One was a deal with Pipistrel, the maker of ultra-light planes, hybrid motors, and gliders, for production in China; the other was the purchase of Elaphe, a company designing electric engine in wheel sets – in other words, key

16 "US looks to block Chinese stakes in artificial intelligence, technology with military uses", *Japan Times*, 14 June 2017, available at https://www.japantimes.co.jp/news/2017/06/14/asia-pacific/u-s-looks-block-chinese-stakes-artificial-intelligence-technology-military-uses/.
17 Annex 2, "Chinese acquisitions in Europe, 2006-17".
18 ECFR interview in Paris, June 2017.
19 ECFR interview in Paris, June 2017.

components of the future aircraft, drone, and auto industries.

The aircraft industry indeed figured very often during the course of 2016: in Austria, AVIC teamed with Hong Kong Treasure Advance Limited (sic) to buy FACC, a maker of fibre parts and components for aeroplanes and their engines, a supplier to Airbus, Boeing, Bombardier, Embraer, Sukhoi, and COMAC. In the Czech Republic, China is making an offer for Russian-owned Aircraft Industries. In France, China had earlier bought Lisa Airplanes and Sky Aircraft, and in July 2017 Jin Jiang purchased Sabart Aero Tech, an aluminium caster company operating in the aerospace industry. In Germany, Kuka had to divest itself of its aerospace branch before the company was taken over by Midea Group. In 2016 Shanghai Electric bought Broetje Automation, a drilling and riveting equipment manufacturer for the aerospace industry. In Spain the same year AVIC and Shenzhen's Han Laser Co bought Aritex, a major manufacturer of assembly lines for aircraft manufacturers, commenting that this would allow it "to expand into the aviation and military sector".[20] In July 2017 the Aritex website front page displayed a photo of the A400 military cargo plane, replaced in August with a snapshot of the civilian A340.[21] In the United Kingdom in 2015, AVIC bought AIM, a maker of cabins and composite fibre materials for civilian and military aircraft. Kuang Chi, whose chief executive officer has been dubbed "the Chinese Elon Musk", has bought into Gilo, a maker of jetpacks and engines for unmanned drones. Another case involves a web of Chinese defence-related institutes interchangeably called AEEC-BIAM or AVIC-BIAM: short for Areo Engine Corporation of China (AEEC), Beijing Institute of Aeronautical Materials (BiAM) and the well-known Aviation Industry Corporation of China (AVIC).[22] The company sponsors several Chinese "research institutes" such as the Beijing Institute of Aeronautics Materials (BIAM). Directly or through these subsidiaries, AEEC/AVIC, in charge of the engine for the fifth generation stealth J-20 fighter jet, has partnerships on graphene and composite materials, coating and alloy casting with Imperial College and Birmingham and Manchester Universities, Rolls-Royce, Airbus, and ESI Group.[23] The last, a leading French virtual prototype designer, boasts on its website that its cooperation with Shenyang Aircraft has cut the design time and the weight of new Chinese jet fighters.[24]

20 Quoted by Mathieu Duchatel in "Influence by default : Europe's impact on military security in East Asia", European Council on Foreign Relations, May 2017, p. 10, available at http://www.ecfr.eu/publications/summary/influence_by_default_europes_impact_on_military_security_in_east_asia_7288.
21 ARITEX, homepage, available at http://www.aritex-es.com/en/.
22 Both names are used indifferently on BIAM's website. AECC BIAM, webpage BIAM Culture, available at http://www.biam.ac.cn/en/tabid/304/Default.aspx.
23 AECC BIAM, Cooperation webpage, available at http://www.biam.ac.cn/en/tabid/306/Default.aspx.
24 "Shenyang Aircraft cuts fighter jet structure parts' weight using PAM-STAMP", ESI Group, available at https://www.esi-group.com/fr/entreprise/propos-desi/succes-clients/shenyang-aircraft-cuts-fighter-jet-structure-parts-weight-using-pam-stamp.

One investor stands out. HNA may be a ubiquitous buyer of airports and airlines, Cosco the same with ports, and AVIC visibly at work in the aircraft sector. But it is Huawei, the communications and mobile phone company, which is present literally in every EU member state. By contrast with other Chinese firms, it mostly creates local subsidiaries, and does not show up much in the table of mergers and acquisitions. But the company has set up service and distribution centres across Europe, spreads R&D centres around liberally, and mostly hires IT research staff rather than create production facilities. As such it is increasingly attractive to engineering graduates. Huawei has made Hungary its main launchpad in Europe, where it has 2,500 employees. It has had its own "strategic partnership" with the Hungarian government since 2015, and is creating a joint IT and Industry 4.0 centre with Borsodchem, a major petrochemical firm also under Chinese ownership. Huawei was entrusted with the Hungarian government's mobile phone network after the acquisition of MVM Net in 2015, and it also manages the national emergency number.

Huawei is the most active Chinese firm in lobbying, both at member state level but even more so in Brussels. The military origins of its founder, Ren Zhengfei, and its core business, which involves hardware and software access to voice and data traffic, have always posed a security problem. It has been barred from communication equipment contracts for the US government since 2012, and from Australia's national broadband network. In the UK, it has had to set up a unit supervised (but not managed) by the British government to ensure the cybersecurity of its installations against siphoning from China. Other European countries tend to regard its entry into the UK market as a Trojan horse within the EU. In 2011 London actually turned down a Huawei offer to provide mobile reception on the London Underground for free. It is now part of a consortium for the same project. But Huawei is also increasingly leading on network infrastructure – so much so that it is technically irreplaceable in the coming 5G mobile generation. Beyond the direct lobbying, and generous grants to think-tanks in Europe, it is now very active in defining 5G norms compatible with Chinese-made equipment. This is likely to be a battleground on issues of privacy and security: the 5G norm will facilitate the 'internet of things', including multiple access points to communications, and starting from the network antennae. Data centres – which China increasingly requires to be placed inside China for companies operating on the China market – may also become an issue: in December 2016, Global Switch, a data company with storage locations that include Hong Kong, sold a 49 per cent stake for £2.4 billion (the biggest Chinese acquisition in the UK for 2016) to a consortium of

Chinese investors including Jiangsu Sha Steel Group but also subsidiaries of AVIC, the huge defence aerospace corporation. As one writer put it, "In other words, the heart of China's defence industry just bought a major data centre in the UK and no one seems to have noticed."[25]

By no means do Chinese acquisitions focus solely on the industries mentioned above. The lion's share of acquisitions concerns the auto industry (37 cases) and energy, namely the sale of grids in Greece, Portugal, and Italy. Component suppliers to the German auto industry, located in central and eastern European (CEE) countries or in Germany itself, seem to be of particular interest. The trend deserves mention because in China foreign car companies have been pressured for years into buying from indigenous rather than foreign-owned subcontractors.

Science parks and cooperation

China also manages to acquire technology from Europe through scientific cooperation and by buying in, or even developing science parks or start-up campuses single-handedly. China's top-down science plans and MOST lend themselves well to the first type of acquisition. It is helped by two factors: control, with the Ministry of Education, over any agreement concluded by a Chinese university; and the eagerness of foreign scientists and academic institutions to cooperate with China, if only for reasons of prestige. The EU itself leads the way, following the tradition in this area of open-ended contributions to China. Horizon 2020, the EU's €70 billion R&D innovation programme makes specific offers to China: "through participation in Horizon 2020, China can gain great benefits from access to excellent knowledge, access to research data and access and connection to world-leading scientific networks and research teams".[26] Recent calls advertised to China include energy, ICT (5G networks), aeronautics, and polar research, alongside more obvious themes such as food, water, and sustainable cities. An EU-funded contractor, Dragon Star, facilitates the agreements and publicises the results. It covers, in fact, the EU, accession countries, Norway, and Switzerland. Two of its maps list agreements and partners, although it admits that "transparency is still lacking" on some of the exchanges.[27] Italy dwarfs all other countries in terms of the number of projects involved. One Italian company making naval

25 John Hemmings, Safeguarding our Systems: Managing Chinese Investment into the UK's Digital and Critical National Infrastructure, p. 31, The Henry Jackson Society, London, 2017, available at http://henryjacksonsociety.org/wp-content/uploads/2017/07/Safeguarding-Our-Systems-Report-FINAL-Digital.pdf.
26 European Commission, "Horizon 2020 – What's in it for China ?", Horizon 2020, the EU framework programme for research and innovation, available at http://ec.europa.eu/programmes/horizon2020/horizon-2020-whats-it-china.
27 Bilateral Agreements between EU Member States/Associated Countries & China, available at http://www.dragon-star.eu/bilateral-agreements-between-eu-member-states-china/.

radar antenna technology, including for coastal surveillance, comments: “If you give your best to them, they will certainly give their best to you”.[28]

Given the very low access for Western institutions to Chinese R&D, and the growing difficulty for foreign institutions and firms in China in hiring foreign researchers and interns, the question of reciprocity arises here. MOST controls all exchanges. In the case of ITER (the fusion project located in Europe but international in nature), it broadcasts the help this brings to national goals: “by participating in the ITER project, China‘s low-temperature superconducting strands have achieved 100% localization, and China’s R&D capability and industrial production capacity of superconducting strands have reached the world class.”[29] One could not express more frankly how China can use international cooperation to achieve its goals of indigenising production up to the very top of the technology ladder. Under the ITER umbrella, in March 2017 MOST signed bilateral agreements with other countries – including with France – for a Joint Nuclear Center for Nuclear Fusion.[30] Within the 16+1 CEE framework, a joint conference on innovation has started, a China-CEEC Virtual Technology Center has opened in Nanjing,[31] and a China-CEEC Technology Transfer Center will be established in Bratislava, Slovakia.[32]

Science or high tech parks are in fact more prevalent in China than they are in Europe or even the US, where clusters of institutions spring up according to market or by aggregation. But there have been two Chinese initiatives. The first has turned into an inconclusive seven-year saga: a China-Belgium Technology Park is intended as “China’s first incubator in Europe”. After the first Chinese partner’s CEO was arrested for corruption, the city of Wuhan and auto company Dongfeng have taken over. Another attempt has reportedly been under negotiation with Paris-Saclay, France’s largest cluster of public science and technology. An incubator for 200 tech start-ups is planned, and a commercial subsidiary of the prestigious Tsinghua University would gain access to these by putting down €100m. Apart from the wisdom of the partnership itself, the meagre sum involved seemed to demonstrate some

28 Dragon Star, “China-Italy: radar antenna development”, Activities map, available at http://www.dragon-star.eu/sti-activities-search/.
29 Ministry of Science and Technology of the People’s Republic of China, “Completion of Superconducting Strand Manufacturing for ITER”, Press Room, 26 May 2017, available at http://www.most.gov.cn/eng/pressroom/201705/t20170526_133088.htm.
30 Ministry of Science and Technology of the People’s Republic of China, “ITER China and CEA signed MOU on Building Joint Research Center of Nuclear Fusion”, Press Room, 23 March 2017, available at http://www.most.gov.cn/eng/pressroom/201703/t20170323_132128.htm.
31 Ministry of Science and Technology of the People’s Republic of China, “1st China-CEEC Conference on Innovation Cooperation Opens in Nanjing”, Press Room, 2 December 2016, available at http://www.most.gov.cn/eng/pressroom/201612/t20161202_129309.htm.
32 China-CEE fund, “The Riga Guidelines for Cooperation between China and Central and Eastern European Countries”, 5 November 2016, available at http://china-ceefund.com/Template/news_page.aspx?nodeid=12&ordernum=1&type=prev.

naïveté on the French academic side.[33] The French side has abandoned the plan in the summer of 2017.

Consumer goods and infrastructure

Nor are most of the acquisitions above among the most publicised. Another category stands out: the activity in the consumer, media, tourism, real estate, and airline sectors by China's top "private" companies, such as Anbang, Fosun, HNA, and Wanda. Even more prominent to the general public has been the spending spree on football teams (including not just one but both well-known Milan clubs). But football clubs matter only because the buyers were rushing to please, or so they thought, Xi Jinping, who has said he wants China to rise up the world football ranking.

The "private" category is ambiguous. This group of companies has evidently used political connections to launch uncontrolled investment in what are non-strategic sectors. Here the pattern is unpolitical and looks very much like the Japanese investment craze of the late 1980s. China differs from Japan, however: since January 2017, these private firms and their chief executives have been ruthlessly brought under control. There are other, more tech-savvy, entrepreneurs such as Jack Ma from Alibaba or Tencent's Pony Ma. They too are well-connected. In response to a question about links to the Chinese Communist Party, one of them quipped, "we sleep together but we are not married."[34] These private – or hybrid? – entrepreneurs in social media and internet banking matter more than hotel chains and transport companies , as Chinese IT manufacturers do, in the sense that their services will soon reach every consumer in the world, whether in social media, consumer, or payment industries. The Chinese government, which has established the most pervasive programme of survey and evaluation of its own citizens from their web use and generally electronic records, will be able to expand this data collection globally. One key issue is that these so-called "private" companies, just as some major Hong Kong firms, are being brought back under the party-state's control under Xi Jinping. The distinction between state and private enterprises was always tenuous. Today, it is disappearing where China's strategic objectives are concerned.

The other category of investment that has been in the limelight is, of course, infrastructure. Major Chinese state firms have been bidding for control of ports

33 ECFR interview in Paris, July 2017.
34 ECFR, answer given to co-author at a Q&A in Paris, 10 March 2014.

throughout Europe – including Rotterdam, Europe's largest port, which the Dutch government deterred from from going ahead. These bids extend all the way from the eastern Mediterranean to Portugal to the Arctic Circle, to which one might add Hutchison Whampoa's multiple purchases of UK ports. Beyond the well-known case of the Greek port of Piraeus, COSCO will soon own the container port terminal of Zeebrugge following Maersk's decision to sell the majority of shares to the Chinese giant.[35] By acquiring 51 per cent of Noatum Port Holdings, COSCO acquired two container terminals in Valencia and Bilbao.[36] Bidding for building the new terminal at Algeciras is now open, and it is likely that COSCO will position itself for it. Nonetheless, labour union strongholds are probably what explains some exceptions, such as French ports or Lisbon, for example, for which no bids have been made.

But the number of offers is nevertheless astounding. Some aspects deserve a mention: there is almost always less capital than meets the eye, and very little follow-through investment, a feature that also applies to most of these Chinese state companies' airport and railway line ventures. Where new infrastructure is under consideration, the Chinese operator lends, with risks being therefore borne by the investee rather than by the investor. This should be of particular concern where multiple projects are at play – can all five vastly upgraded Adriatic ports break even when there is already overcapacity in European ports? Even Piraeus, the Chinese success story in this category, is vulnerable to these potential developments.

In these areas, Chinese investment or management takeovers are an issue for a limited number of reasons. Labour is one, in a very conflictual sector, and also because Chinese takeovers generate fewer additional jobs than initially appear to be the case. There could also be a security risk. For ports outside Europe, Chinese takeovers generally mean that the People's Liberation Army Navy will then get access. It remains of course a prerogative of the host country to grant and calibrate such access. In this case, it is the indirect influence gained that may matter: Greece's reluctance to join a resolution on the arbitration of the South China Sea in the European Council, and its public stand against criticism of human rights in China, testifies to this influence. In principle, managing ports does not imply full control. But recent difficulties that Japanese ships have experienced when docking in Piraeus may show that there is no 'Chinese wall', so to speak, between management and full control. Some governments

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35 APM Terminals, "APM Terminals divest Zeebruge share", 11 September 2017, available at www.apmterminals.com/~/media/CMS%25202017/Press%2520releases/1709/170908-apm-terminals-to-divest-zeebrugge-share-press-release.ashx+&cd=3&hl=en&ct=clnk&gl=fr.

36 Alice Woodhouse, "Cosco Shipping buys controlling stake in Spanish port for €203m", *Financial Times*, 13 June 2017, available at https://www.ft.com/content/26c99549-29d4-3d00-8714-e62d22e83bcf.

have been more reluctant than others. Poland is planning a new large-scale central airport (CPK), in which Chinese banks are interested. "We want these investments to be under Polish control – obviously in cooperation with China. It must be support, but with our control. We would like to avoid the situation in which projects such as CPK are wholly financed by China."[37]

It may be the more mundane issue of a near-monopoly of Chinese companies – again, really one big state actor – on European infrastructure – and not solely security issues which should be taken into consideration. If all of these Chinese offers succeed, then a handful of China's major SOEs would have a monopoly on key logistical points – and that is an issue in terms of competition policy. One cannot help but reflect that these SOEs, using the pretext of BRI and the Silk Road towards the government, are perhaps overstretching their involvement. That is cause for concern at Chinese economic policy. In 2017, Anbang, Fosun and even HNA and their semi-private business tycoons have entered choppy waters in China itself: some CEOs have been detained and replaced, HNA's ownership structure has undergone a sudden and mysterious change. It is possible that major Chinese M&A activity abroad slows down, reflecting official concern on money outflows. The figures will become less spectacular, but issues involving critical technologies, security, opacity and reciprocity will remain.

Norms: the case of agriculture

Norms, and particularly industry and technology norms, are one area where cooperation between the EU and China is of the utmost interest. In the past, Chinese regulators adopted European norms such as the former GSM mobile phone norm and EU one to six car emission limits. This is no longer so obviously the case, in line with China's growing technological capacity and the interest of its industry in exporting its own norms. As already mentioned, China is very active in Brussels-based advisory groups for the coming 5G standard. In other areas, and particularly industry standards in the transport sector, it is very intent on exporting (along with BRI projects to Eurasia) the Chinese norms that go with financing packages. The move may be more important for the future than the present exports themselves.

On agriculture, attempts by Chinese firms to lower standards on agricultural products, especially dairy products, have also happened in Germany, the Netherlands and France: these attempts defy a logic where Chinese firms

37 ECFR interview with a former government official in Warsaw, March 2017.

bought European producers in order to advertise food safety to wary Chinese customers! In every member state, Chinese officials have raised agriculture as an area of an interest in joint cooperation agreements. Access to the attractive Chinese market is used as a carrot-stick tool. In March 2016, following the signing by Ireland of a joint European letter criticising human rights in China, China threatened Ireland on the economically sensitive issue of beef exports. The country had to wait until April 2017, and a more accommodating policy towards China, to become the first EU member state where the ban on beef exports was lifted. Lithuania saw a breakthrough in 2016 when China certified Lithuanian dairy companies; the following year, certificates for Lithuanian beef products were issued.

Investment: a source of concern

Investment from China is both sought after and increasingly a cause for concern. The wake-up call was the 2016 Chinese investment raid on Germany. Fears abound about security and increased Chinese influence, and a lack of responsiveness by China at the EU level. Talks to include China in the European Fund for Strategic Investments have dragged on for seven years – with the only result a $250m Chinese contribution to a fund for investment in small- and medium-sized enterprises. One participant termed this "a commercial investment under Luxembourg law with a good return for China."[38]

Imports from China are unquestionably rising up the technology ladder, but Chinese firms are far behind their Japanese or Korean competitors, in localising plants within Europe. This also means fewer jobs, and, strikingly, a frequent complaint is that Chinese M&As dwarf greenfield investment, and in any case do not generate much new employment. Another concern is the siphoning of commercially applicable technologies, and this is clearly taking place through select purchasing of firms – often relatively small and in quite a few cases in financial difficulties – in sectors like the auto industry, aeronautics, machine tools, and biopharmacy. This happens on a scale that is far less than that practised, for example, by Gafa and Silicon Valley firms flush with cash. The difference with American predatory practice is twofold: they happen within a value chain which China wants to capture, and less often at the leading edge of IT. But, on the other hand, technological transfer through acquisitions is a two-way street between Europe and the US, mostly limited by the availability of finance. With China, the technology flows only one way. Reciprocity is absent, and as China's overseas investment capacity grows and

38 ECFR interview in Brussels, July 2017.

focuses on technology, this problem will only grow in prominence. For China, reaching world-class levels in many areas by 2030, is an absolute priority. This is shown by: China's advance in industrial robots; its designation of priority niches such as 3D manufacturing; batteries and drones; nanotechnologies; its integrated nuclear energy development; the systematic acquisition of alternative energy start-ups and a huge subsidy programme for these; and the potential leap-frogging in areas such as brain-machine interface facilitated by reduced ethical concerns.[39]

Of even more direct concern is the question of dual use technology, and of military sectors within the companies considered for purchase. What point is there in having an arms embargo and EU guidelines for arms exports if these issues are left to one side? This is compounded by the fact that most future technologies and leapfrogging developments have obvious military applications. The Kuka debate and the Aixtron case in Germany have created a growing European awareness on the need to screen extra-EU. The main impetus, however, has come from the US and Japan: it is CFIUS that caused the German government to halt the sale of Aixtron because of its military implications, it was also at the request of the US that Kuka had to sell off its aeronautics division before the purchase by China, and that the Dutch company Philips was blocked from selling Lumileds.[40] Similarly, Japan has been inserting requirements for mutual consultation on dual use into agreements with European nations on weapon development and manufacturing cooperation. These have included the UK, France, and, most recently, Germany. In both the US and Japan, the debate over China and national security has grown very loud: it is now a national priority for the Abe government, and was a key debate during the 2016 US presidential campaign, and since. In the US case, the issues of intellectual property rights and technology theft, and (for both countries) the overarching theme of economic security and technological lead, are interspersed with that of national security.

Should Europe follow suit? And, if so, how? A first step Europe must take is actually not to recuse itself from the issue, particularly if the US and Japan are reinforcing their own legislation and, above all, implementing it more frequently. If Europe failed to do so, it would become the shop of last resort for China and others seeking advanced technologies. Indeed, the US is considering

39 Secrétariat Général de la Défense et de la Sécurité Nationale, Chocs Futurs, Etude prospective à l'horizon 2030: Impacts des transformations et ruptures technologiques sur notre environnement stratégique et de sécurité, SGDSN, April 2017, available at http://www.sgdsn.gouv.fr/uploads/2017/04/sgdsn-document-prospectives-v5-bd.pdf.
40 Toby Sterling, "U.S. blocks Philips' $3.3 billion sale of Lumileds to Asian buyers", *Reuters*, 22 January 2016, available at https://www.reuters.com/article/us-philips-lumileds-sale/u-s-blocks-philips-3-3-billion-sale-of-lumileds-to-asian-buyers-idUSKCN0V02D4.

a more extensive use of Sections 232 and 301, and is considering a reform of CFIUS, which is already increasingly active. It reviewed 170 cases in 2016, and around 250-300 in 2017. In the first half of 2017 it already turned down nine investments. Japan is also gearing up for closer surveillance of technology transfers. It has recently strengthened its Foreign Exchange and Foreign Trade Act (FEFTA). It has also introduced control of foreign students, participation in international conferences, university cooperation projects and visiting fellows. In particular, it monitors the background of foreign students and their onward career after graduation, with an obligation for universities to comply. Australia, shaken by influence-peddling scandals involving Chinese agents and the political class, is also beginning to respond to these sensitive issues, and on some investment cases in particular: for example, it has severed links to Global Switch, the UK data company acquired by Chinese investors.

Policy implications

Investment screening

The European Commission is moving quickly, with an October 2017 proposal to the European Council and European Parliament. The plan, if agreed, would be broad-based and encompass all investments that have an implication for public order or security. It creates a right for the European Commission to supervise investments in sectors where it subsidised technologies. It also lists critical technology sectors that are key to the industries of the future and which more often than not have direct military applications. Indeed, given the difficulty in predicting what the sensitive areas of the future will be, it is important for the EU to allow itself the freedom to act, within established rules, complete autonomy, and perhaps even a degree of unpredictability. The European Commission would be able to conduct "screening on grounds of security and public order, in case where a foreign direct investment may affect projects or programmes of Union interest", and this goes beyond simple analysis. This includes "critical infrastructure, critical technology or critical inputs". And there is an obligation for member states to inform the European Commission of their own screening, along with the possibility for the European Commission to request information. The proposal provides for peer pressure – member states may ask questions of each other – and also applies to mergers, recalling a little-applied merger rule that calls for "protection of public security, plurality of the media and prudential rules as legitimate interests". The area under screening is quite extensive, and includes critical technology. The phrase "Union interest" almost – but not quite – creates a golden share for the

European Commission on projects involving more than one member state, or subsidised by the European Commission. The proposal is non-discriminatory – it does not target China in any way, a requirement which is consistent with European policies on trade.

Yet Europe is not well prepared to define investment screening, not to mention implementing it, given the lack of human resources at the EU level, the dependence on external intelligence sources, and the sheer difficulty of identifying key technologies that relate to national security.

The proposal does not enter the area of national security, which remains a member state prerogative. It is also not a tool aimed at direct leverage over partner countries: for instance, the proposal leaves the issue of reciprocity untouched, even though this might give a valid basis for bargaining on mutual opening of public procurement. It is mandatory in one key respect: information is required from all member states on cases of foreign investment, with a review and guidance to be steered by the European Commission. Yet it is not mandatory in terms of what comes after the review: the guidance and recommendations from the European Commission will lead to a debating process with each member state if called for, but there will be no binding decision by the European Commission. Clearly, this is a compromise between those who wanted to shift authority on investment screening to the European Commission, and those who insist on retaining national control – whether or not they have investment screening mechanisms in place. It is likely that the authors of the proposal are counting on peer pressure, on reciprocity among member states, and on public opinion making its voice heard in some cases.

One knowledgeable participant explained that meeting regularly on investment and security issues was already in progress: "the Commission provides a table and chairs" for a monthly meeting on foreign investment issues involving member state officials.[41] In a fashion that follows the EU's guidelines on arms exports, or what DG Internal Market and Services achieves on clandestine financial flows with successful intergovernmental cooperation, the process will include mandatory coordination and exchange of information. Investment screening will require that the European Commission and member states pool investigative tools and initiate exchanges of information and views with third parties – the US, Japan, Australia, and Canada come to mind, because they are the most advanced in this area. But this raises issues of its own. Exchange of information implies reciprocity, and a dialogue backing up the data

41 ECFR interview in Paris, July 2017.

exchanged. It is unlikely that Europe's major partners would share sensitive data with all 28 member states, as this increases exponentially the probability of leakage. And transferring EU data to others implies an analytical capacity to sift through the raw data communicated by member states and an ability to reach practical conclusions. In short, in spite of the non-binding nature of the proposal, the EU institutions themselves needs staff that are empowered to make this happen. Identifying key technologies with implications for public order and security, and piercing through the opacity of offshore banking and firm ownership, are also crucial to identifying the growing practice of 'false flags' (where a foreign company acquires a minority share in a European company but injects enough capital by lending that it multiplies its investment capacity as a European investor).

In spite of these difficulties, some unity has appeared at the core. In 2017 France, Germany, and Italy sent two joint letters and a non-paper to the European Commission urging it to devise a proposal for investment screening. The Netherlands, Spain, and the UK are likely to support this approach. For some of these countries, and for many European Commission officials, this marks a major shift. A Brussels official sums up the mood change thus: "I have been fighting barriers to investment all my life, and now I find myself supporting them. China – and even more Russia – have convinced me."[42]

Since the style of Angela Merkel and Germany in general is to "lead from behind", it fell to newly elected Emmanuel Macron to give a presentation on the matter to the European Council in June 2017. While some resistance by northern European countries had been expected, the most vocal opponents came from southern Europe – Antonio Costa from Portugal and, predictably enough, Alexis Tsipras from Greece.[43] The mandate to the European Commission so far is to "analyse" rather than to "screen" investment in strategic sectors from third countries. To expect otherwise would have been foolish, and a broad mandate scares those member states that have already accepted bilateral Chinese investment in their infrastructure and finance sectors, and that applies especially to Portugal after the euro crisis. CEE countries, although mostly disappointed by China's delivery on Silk Road promises and prioritising EU membership and rules over the "Chinese way", will no doubt look very closely at any additional controls. Northern Europe member states, more involved in finance and services, and often with very strong investment interests in China, have not been heavily targeted for critical acquisitions by Chinese companies

42 ECFR interview in Brussels, July 2017.
43 Laurens Cerulus and Jakob Hanke, "Enter the dragon", *Politico*, 10 April 2017, available at https://www.politico.eu/article/china-and-the-troika-portugal-foreign-investment-screening-takeovers-europe/.

so far – in the word of one Finnish observer "the Chinese operate step by step, region by region, and they have not really got to us yet."[44]

Even among the three signatories of the proposal to the European Commission, there is no complete agreement on process. Italy professes to seek regulations and implementation solely in the hands of the European Commission, apparently because it fears national bias among its powerful neighbours. Its own behaviour towards Chinese investment, including in sectors that include defence interests, sometimes seems to belie its present position at the European level. Germany would also federalise the process – leading to some observations that it makes the deals for itself and mutualises the difficulties. France seeks a common rule but national implementation and decision, in part because it believes the EU process is cumbersome and too slow (both CFIUS and Japan's FEFTA have very strict time constraints on their processes).

And even those few member states that have adequate tools for investigation and legal action may have an interest in a shared process. For France there is a real risk of seeing its own decisions countered by the single market and by other less demanding member states; since 2005 it has had legislation in place (which it strengthened in 2014), informally described by some within the European Commission as "borderline industrial protectionism."[45] The European Commission has not challenged this – yet. Germany's strong private sector, and, for example, its Federation of German Industry (BDI), lean towards continued free access for investors. But many German firms operating in China can see the writing on the wall and are sensitive to the asymmetry between Europe's free market and China's ever more centralised industrial and technology policies. For the UK, there is a need to demonstrate both to Europe and to the US that it is a reliable partner on strategic matters. Convincing some other member states to back investment control will be harder. Some have already given up any hope of preserving their ground, and see foreign investment as a financial resource. A few have interests in the China market that at present dwarf any other consideration.

Investment treaty

Alongside investment screening, there is also European momentum behind finalising the Investment Agreement that has been in the works since 2013. This would replace existing agreements between China and each member state, and

44 ECFR interview in Helsinki, June 2017.
45 ECFR interview in Brussels, July 2017.

that were often concluded decades ago. With some member states, this would actually give better terms to Chinese investors. A breakthrough would require that the principle of reciprocity is recognised and on the way to implementation, and, for example, that China would open up its public procurement. European negotiators are also seeking conditions of transparency, as well as access to more of China's economy – including service and financial sectors.

China and the EU entered the 15th round of the investment agreement negotiations in October 2017. The Trump administration's move against the TPP and TTIP created extra impetus for both sides to talk. Xi Jinping's verbal commitment to free trade in Davos gave some new rationale for an agreement. There is, as yet, little to show for it.[46] The EU has a clear idea of the direction it wants to take. Reciprocity – preferably positive and not case by case – between both parties is key to arriving at an agreement. Should China take these proposals seriously, it would certainly meet with European good will. What it can no longer expect is that Europe would unilaterally allow for vastly increased and targeted Chinese investment as China simultaneously increases the reach of its centralised defence procurement, industry, and technology acquisition sectors.

Reforming trade defence instruments

The reform of European trade defence instruments is now under way, after an earlier failure in 2013.[47] The first step concerns a general reform of anti-dumping criteria. This is necessary, since the regime applied to China was adopted for the 15-year transition period after China's entry in the World Trade Organization in 2001. A permanent and non-discriminatory regime is needed. This first step has now been approved by the European Parliament from a European Commission proposal, and is set to go to the European Council. It is strictly concerned with criteria for anti-dumping. The European Commission, basing its decisions on its own studies, would identify countries and sectors where there are significant price distortions. EU companies would then be able to launch a complaint without having to cite their own evidence within these countries and sectors. The burden of the proof is largely placed with the foreign companies incriminated, which can put forward proof that their own pricing is not subject to the distortions identified in the same sector and country that they operate in.[48]

46 Michael Martina, "EU says investment deal with China urgent to support Belt and Road vision", *Reuters*, 15 May 2017, available at https://www.reuters.com/article/us-china-silkroad-eu/eu-says-investment-deal-with-china-urgent-to-support-belt-and-road-vision-idUSKCN18B0HC.
47 European Council decision, 13 December 2016, available at https://www.consilium.europa.eu/en/press/press-releases/2016/12/13/trade-defence-instruments-general-approach/.
48 This last shift of the burden of the proof results from a European Parliament amendment.

After anti-dumping criteria, the modernisation of trade defence instruments is still in the works. The European Commission's proposal – applying to all and therefore non-discriminatory – includes higher compensation for dumping, shortened examination periods, and changes to the so-called "lesser duty rule".[49] The rule, specific to the EU, prescribes that compensation for dumping be limited to the damage actually suffered by European companies, and therefore without any punitive levy. The new trade defence instruments have to be consistent with WTO rules and will apply to all external partners, ending the special treatment for non-market economies. It is clear that Chinese dumping and public sentiment were the key motivations behind the proposal, but the debate now extends beyond China to basic differences among member states and also to the possible backlash from trade partners of the EU other than China.

Shielding European companies and citizens

Yet, the thorniest issues between the EU and China concern advanced technologies, among which IT, artificial intelligence, big data, and networks stand out.[50] The contrast between China's multifaceted drive for technology acquisition abroad and the simultaneous closed access to Chinese firms is telling. This is an area where the EU is behind the curve, and has perhaps been guilty of a certain amount of gullibility. Specific mention should be made of a well-funded programme from DG Innovation to put European start-ups in contact with potential Chinese suitors. Its events and fairs, managed by a well-known contractor in Brussels, amount to the closest thing to a free bar in what is the most vital sector of European innovation for the future. Certainly, these risks also exist with the snapping-up of successful European start-ups by cash-rich American IT companies. But at least there the process is theoretically open in both directions. Individual interest – the obvious motivator for all start-ups in getting funded – clashes with the obvious consequence that innovation will flow only in one direction – towards China, which is organised top-down to capture innovation and pre-empt new markets. The EU should simply scrap such programmes.

In the area of technologies with dual use implications, a trend from direct arms sales to Chinese investment in some areas of the European production chains should be watched closely. There is no way to counter this without coordination of information and attention to sensitive European companies

49 See Communication from the Commission to the European Parliament, the European Council, and the Council "Towards a robust trade policy for the EU in the interest of jobs and growth", 18 October 2016, available at https://ec.europa.eu/transparency/regdoc/rep/1/2016/EN/1-2016-690-EN-F1-1.PDF.
50 See assessment in Chapter 3: China's investment in Europe: opportunity versus security.

– Chinese buyers often target companies in difficulty.

There should also be limits placed, along with guidelines and adequate counselling, on scientific exchanges and technological cooperation with Chinese entities. The very general term of “entities” features here because it is now an element of China’s doctrine on R&D and knowledge acquisition that companies, universities, and scientific associations cooperate with one another and in fact mesh together seamlessly. A military jet engine company can include an “academy” and a research “institute”. It may cooperate – all over the world – with aerospace and IT firms and at the same time with state-of-the-art academic institutions. Bit by bit the company acquires critical fighter engine technology. The same can happen with purely academic exchanges or students studying abroad, applying for institutions that cover one of China’s technology acquisition goals. Ironically, China itself has considerably reinforced its export controls, including on resale to end users of products incorporating Chinese technology. This may seem a welcome development, but it goes with the promise of retaliation against countries which have discriminatory export controls to China.

It has been 13 years since a seminal report by the Rand Corporation showed that, in essence, most sophisticated American weaponry relied in part on chips made in China, and that it is impossible to prevent technology leakage when chip founders invest in China.[51] But it is another thing to encourage this leakage. Japan has taken the lead in responding, in October 2017, by introducing inward investment screening that includes ten strategic sectors. It is also introducing a guidance system for universities, including pre-screening of applicants, internal checks for students and researchers in key sectors, and monitoring of onward careers. These measures will be anathema to much of the European scientific community which believes in free exchange of knowledge. Yet ignoring the problem opens the door to planned top-down schemes from China which aim to acquire knowledge in areas that span civilian and military development.

There are few substantiated cases in Europe of Chinese spying on companies or even in the military sector – perhaps because no publicity is given to these cases, unlike in the United States. A public exception is a recent report from the Czech intelligence service.[52] There is, frankly, no independent way to assess

51 Michael Chase, Kevin Pollpeter and James Mulvenon, Shanghaied? The Economic and Political Implications of the Flow of Information Technology and Investment Across the Taiwan Strait, CA: RAND Corporation, 2004, available at https://www.rand.org/pubs/technical_reports/TR133.html.
52 See Czech intelligence service (BIS) report, available at https://www.bis.cz/vyrocni-zpravaEN16e1.html?ArticleID=1136, cited in Chapter 5, “Public diplomacy and lobbying: how influential is China in Europe?”

this, and in any case China would certainly not be alone in these practices. Many testimonies collected as part of this research do emphasise the prevalence of cyber penetration by Chinese entities rather than manipulative tactics in the political area like those attributed to Russia. Several European governments and the European Commission have been directly targeted by cyber penetration, very likely with Chinese origins. The EU should extend the existing dialogue with China on cyber security, but the two sides often work at cross-purposes: while China's paramount goal is to extend control by the state, the EU's principle is to protect the individual and privacy. Even though there are some shared interests, such as fighting terrorism, there is a complete asymmetry between the habeas corpus that the EU would like to guarantee in the virtual sphere, and the primacy of state investigation that China practises on an unprecedented basis. The Estonian presidency in the second half of 2017 should be an opportunity to take up these issues.[53] Estonia is both an advanced IT economy, a member state threatened by Russia cyber hybrid war, and a recent locus of Chinese interest in the virtual economy as a gateway to the EU market.

Infrastructure: Reinvigorating the EU toolbox

More difficult is the position to be taken on infrastructure, in part because the issue spans investment and lending, and also because there are very different capital needs and interests across Europe. This Power Audit recommends that a distinction be made between genuine investment, where the capital risks rest on the investor, and lending, where most if not all of the risk rests on the borrower – ultimately, on the European taxpayer. Even in 'core Europe', infrastructure investment is a risky and long-term activity: the most useful tunnel ever built, the Eurotunnel linking continental Europe and the UK, was a black hole for capital even as it crawled towards achieving an operating profit. Nuclear energy plant construction rests on long-term price hypotheses, and France's high-speed railway has created debt worth €35 billion for the country (which should be compared with $350 billion for China's bullet train network). There is simply no interest for Europeans, even if they do not perceive it yet, in acquiring apparently cheap Chinese equipment and public works if this leads to unsustainable debt loads. But if Chinese investors are themselves willing to sustain that risk, as other sovereign investors might be, there is no reason to turn them down as a matter of principle. One could even imagine, since it is unlikely that China will fund projects with debatable profit,

53 In September 2017 the EU adopted a "cybersecurity package", available at https://ec.europa.eu/digital-single-market/en/policies/cybersecurity.

the rules for public tenders being relaxed in some cases: this could be for EU candidate countries (like the Balkan states) or areas designated as priority investment zones. Having Chinese – or any other – companies fund and be responsible for infrastructure investment that otherwise would not be made by European companies under existing investment rules and price structure makes sense for Europe. But this is absolutely not the case when projects concern lending – because risks and responsibilities are then transferred to the European borrower, while Chinese company sales are made upfront. Making a distinction between infrastructure with capital investment and projects relying on loans will strengthen the hand of European member states in obtaining genuine investment rather than costly lending proposals.

The other live issue is the strategic implications of owning or managing infrastructure. In principle, there is no connection between management/ownership and the sovereign rights of states, which can constrain the operational freedom of operators in many areas. In practice, this is not so clear. First, because owning or leasing infrastructure is the first step to further influence and lobbying – the host states being themselves committed to continuing projects because of the implications of a failure or pullback. Second, because China has been bidding for infrastructure of the same type, through state-owned enterprises or hybrid companies ultimately controlled by China's National Development and Reform Commission (NDRC) or even by military 'godmothers' guiding civilian firms. This, along with the polished Chinese practice of creating competition among suitors, gives China leverage because of the ability to develop or to restrict activities in any of the infrastructure projects. To use the example of ports – for which Europe already has overcapacity – this gives China leverage on intra-European logistical routes via financing. Here again, some compromise with member states may be needed, as part of the trend reflects a growing desire by Mediterranean and Baltic ports to end the supremacy that western Europe ports such as Rotterdam and Antwerp have had. But that is precisely the aim of the EU's Trans-European Transport Networks in Europe (TEN-T) blueprint for new infrastructure.

This leads to a proposal that Europe could revisit with China. For more than seven years, China failed to make good on its initial proposal, dating from the time of the euro crisis, to participate in Europe's investment fund, initially called the Juncker fund. As described previously, the only outcome has been a tiny and essentially commercial investment fund for SMEs – far from any €550 billion grand design. Because China has refused to accept the terms of European public tenders, it has instead directed BRI offers towards central and eastern European states. Its €10-11 billion credit line can only be accessed by non-EU member states. The result with the EU is stalemate. Having failed with the 16+1 to break this deadlock, China may even be seeking to circumvent European rules by devising new rules for public-private partnerships at the UN's Economic Commission for Europe (UNECE). The EU's 28 states do not command a majority inside UNECE.

The EU and member states should point out to China that it is losing time by devising such methods of circumventing Brussels. Instead, talks about joining BRI with the EFSI, TEN-T, and EU neighbourhood projects should be restarted in earnest by both parties. The concerned European member states – mostly on the southern and eastern periphery – would in fact help themselves if they emphasise to potential Chinese partners the benefits of entering into a European scheme. This would save them from beggar-thy-neighbour competition and ultimately having to go for costly loan offers. It is when Chinese package offers and Chinese companies meet EU tender rules that they may become competitors. So far, that has not been the case, and it is telling that Chinese companies do not succeed in the open bidding processes they have entered into in the Balkans.

This necessary convergence is implied by the EU's "connectivity platform" with China that has had two meetings so far – with the NDRC in charge on the Chinese side. While China has yet to present its goals for central Asia, EU member states came up with a list of 19 projects for 2016 and 2017 that coincided with the EU TEN-T scheme, even if they do not always reflect its priorities. In its own published outcomes, the EU emphasises "compliance with applicable EU rules and standards".[54] Yet in the joint agreed minutes of these meetings, what is mentioned is "cooperation based on market rules and international norms".[55] Therein is contained all the difference. There is scope to revive this existing instrument, to go beyond talking past each other, and to leverage the Chinese dream of BRI.

54 European Commission, "List of the TEN-T related projects presented in May 2017* in the framework of the Expert Group on Investment and Financing of the EU-China Connectivity Platform", May 2017 available at https://ec.europa.eu/transport/sites/transport/files/ten-t-rel-projects-may-2017.pdf; and European Commission, "List of TEN-T related projects presented in November 2016 in the framework of the Expert Group on Investment and Financing of the EU-China Connectivity Platform", available at https://ec.europa.eu/transport/sites/transport/files/ten-t-rel-projects-nov-2016.pdf for 2016.
55 "Joint agreed minutes second chairs meeting EU-China Connectivity platform", p. 4, available at https://ec.europa.eu/transport/sites/transport/files/2017-06-01-joint-agreed-minutes-second-chairs-meeting-eu-china-connectivity-platform.pdf.

16+1 or 1x16? China in central and eastern Europe

Since 2012, China has intensified its influence with EU member states and candidates to accession in central and eastern Europe (CEE), through what is dubbed the 16+1 framework.[1] Annual 16+1 summits have sought cooperation on infrastructure projects between China and participating CEE countries, backed up by a new fund. The meetings have prompted considerable speculation in Brussels and other European capitals that they are a Chinese effort to 'divide and rule' Europeans. Now effectively merged with the local implementation of the Belt and Road Initiative (BRI), these two frameworks have triggered expectations of a cash influx into the region. But results on the ground have been uneven, to say the least. The format is certainly representative of the growing innovations in Chinese public diplomacy, and it also reflects the willingness of countries in the region to engage with China, perhaps increasing their own leverage with, and within, the EU itself. Yet, as of now, the lure of new loans and limited Chinese investment does not seem strong enough to fragment the EU. But Brussels needs to keep a careful eye on the evolving picture here: were EU structural funds to dry up, new barriers to rise inside the EU, or, perhaps most challengingly of all, more thoughtful and attractive Chinese offers to appear on the table, this situation might still change.

The 16+1 emerges

The 16+1 framework is largely China's own creation, and it originated in the form of a business forum held in Budapest in June 2011. China then suggested to Poland that the latter host a similar, larger, event in a summit format (and

1 The initiative's full title is "Cooperation between China and Central and Eastern European Countries".

from Poland's point of view there was also an obvious interest in wresting the lead away from Hungary). The period coincides with the euro crisis and its aftermath, and with a new reluctance of China to engage directly with the EU on macro-economic issues. It predates the adoption of OBOR and BRI by China, even though these have later provided further incentive to the 16+1 process on the European side.[2]

But China did not get as much as it had initially asked for: its then prime minister, Wen Jiabao, proposed – to resistance on the part of CEE countries – a joint secretariat, which would have been the precursor to a full-blooded international institution. Instead, the participants have been meeting each year in CEE capitals, and once in China. They have also held scores of official events on the side, including a business forum. China has ended up establishing unilaterally a secretariat for the venture, staffed with its own high-level diplomats and with "national coordinators" drawn from the 16 European members.[3]

And the 16+1 format has a familiar feel to it: it resembles the Forum on China-Africa Cooperation created in 2000. Like FOCAC, and despite their multilateral-sounding names, most actual business is transacted bilaterally, and summits are largely venues for strings of bilateral meetings between Chinese officials and leaders from participating countries. The average duration for these meetings is under an hour, translation included. In addition, for 16+1, China has invested in second track activities managed from the Chinese Academy of Social Sciences (CASS) by the China-CEEC Think Tanks Network.[4] A distinct asymmetry between the two sides is evident there too, and also with the newly created China-Central and Eastern European Institute in Budapest, actually established and managed by CASS. In the last stage of setting up and registering the institute in Hungary, the Chinese partner successfully asserted full control of the Hungarian legal entity. In the future, this may give it the right to operate subsidiary branches throughout the EU.[5]

'Divide and rule'?

There is no question that the 16+1 scheme is part of a broad 'divide and rule'

2 Angela Stanzel et al, "China's investment in influence: the future of 16+1 cooperation", European Council on Foreign Relations, 14 December 2016, available at http://www.ecfr.eu/publications/summary/chinas_investment_in_influence_the_future_of_161_cooperation7204.
3 "Introduction of the Secretariat for Cooperation between China and Central and Eastern European Countries", Cooperation between China and Central and Eastern European countries website, available at http://www.china-ceec.org/eng/msc_1/mscjj/t1411097.htm.
4 "China CEEC think tanks network" website, available at http://16plus1-thinktank.com/en/index.jhtml.
5 ECFR interview in Budapest, April 2017.

practice. On the one hand this can be achieved with some ease. Engagement in 16+1, as with FOCAC, is very much a case of countries leveraging their diplomacy to win funding for projects, with the Chinese partner examining the projects put to it. On the other hand, the rules coming with EU membership – and in the near future for accession candidates - have proved much harder to crack.

The countries involved on the European side expected various benefits, ranging from the most mundane and obvious to grander schemes. Since 2013, China has been repeating the same pledge for a $10 billion (now $11 billion) credit line, and, in 2015, a $3 billion investment fund. These are dollar figures – China's official sources do not use euro figures. The problem is that the same announcements for the same funds by China have been repeated for the past three years, without much actual disbursement of funds. They are therefore increasingly treated as a gimmick by the EU member states participating in the 16+1.

The 16+1 summit has also become the umbrella for several ministerial or technical dialogues and bilateral meetings. Poland initially emerged as an early beneficiary, hosting a Business Council, an association of investment agencies and, since the 2017 Riga summit, a secretariat for maritime cooperation.[6] But Latvia, Romania, and Slovakia are now hosting other centres or platforms of the 16+1. The attempt on the part of Europeans to focus yearly summits on concrete deliverables seems to have failed so far. The 2015 Suzhou summit agenda ended in failure in this regard. The Riga summit reportedly almost did not reach a final resolution.

Moreover, China has clearly sought to amend the format where it sees benefit to itself. For example, from the very beginning China pushed for the inclusion of non-EU states. The five non-EU states in the format are all candidates for EU accession from the Balkans. This initially strengthened China's influence as against the EU within the format. Yet, not content with that, China also succeeded in bringing the Belarus prime minister to the 2016 Riga summit. Belarus is not a member of the EU, or a candidate for accession. It is also an authoritarian state that receives strong Russian and Chinese influence. According to 16+1 participants, "our opinion was not sought on inviting Belarus to Riga."[7] In contrast, CEE observers have also noted that Moldova – a

6 Justyna Szczudlik, "Prospects for China-CEE Relations in the 16+1 Format", Pism Bulletin n°76 (926), 18 November 2016, available at https://www.pism.pl/publications/bulletin/no-76-926.
7 ECFR interview in Budapest, April 2017.

democracy – is not encouraged by China to join the 16+1.[8]

But the extent of hard strategy lying behind China's manoeuvring within the format should not be overstated: Chinese aspirations can veer off course when they clash with reality, often to such an extent that some inside observers discern a lack of real strategic direction behind Chinese actions. The advent of BRI policies, with the infrastructure gaming that they carry, seems to have contributed to that. Observers often note the frequent changes of intention on the part of Chinese companies and government officials: "the Chinese are chaotic and change every day. Very few routes are actually crucial to them".[9]This is in fact not denied by Chinese official texts and other sources: OBOR, now renamed BRI in English, is an "initiative" and not a blueprint. Hence there is a large gap between projects' announcements and real deliverables. In Macedonia, the project for a railway connecting Greece to Hungary through Serbia has been shelved after a corruption scandal implicated the government. Hopes that the now better-managed port of Piraeus, which China has invested in, would become a gateway to the north are frustrated by the abandonment of this rail link through Macedonia. And the conflicts in Crimea and Donbas have also rendered impossible, for the time being, a major rail connection from Asia to Budapest. BRI Silk Road schemes have therefore moved north, to the benefit of Belarus (explaining a surprising two-and-a-half day visit by Xi Jinping in 2015) and Poland. China mixes market behaviour with adaptation to circumstances and incentives for competition among its potential partners. The same flexibility – or is it flippancy? - applies to China's latest game plan, announced at the Riga 2016 summit: a "three seas" initiative encompassing the Adriatic, the Black, and the Baltic Seas. Chinese sources themselves talk about "the astounding openness and borders" of BRI, stretching all the way to Scotland.[10]

Vulnerable Europe?

Despite the occasional ad hoc appearance of the scheme, China nevertheless intends to "reshape the global economic geography", as two Chinese commentators have put it.[11] Rather than European economic integration, the projects may one day reshape access to Europe. As outlined above, this may not yet be the case when it comes to rail links, but it is beginning to appear

8 ECFR interview in Budapest, April 2017.
9 ECFR interview in Budapest, April 2017.
10 Feng Zhongping and Huang Jing, "China-European cooperation on the Belt and Road Initiative: drive, dynamics and prospect", Contemporary International Relations, No. 2 2016, pp. 9-15. Hereafter, "China-European cooperation on the Belt and Road Initiative: drive, dynamics and prospect".
11 "China-European cooperation on the Belt and Road Initiative: drive, dynamics and prospect".

for energy transport. China's new and high-profile Asian Infrastructure Investment Bank project, alongside the European Bank for Reconstruction and Development, Azerbaijan, Georgia, and Turkey, involves a Trans Anatolian gas pipeline (TANAP) connecting the Caspian to Europe.[12] Linked to a Trans Albanian pipeline and ultimately to Italy, the project actually reduces dependence on Russia for natural gas. It may also prove unprofitable, given the current oversupply of gas in Europe.

Also outside the EU, China has concluded free trade agreements with Iceland and Switzerland, and is negotiating one with Norway. It has also started other subregional meetings with selected countries in northern Europe and the Mediterranean. In February 2016, the Nordic Council of Ministers decided to explore a regional platform with China. A Swedish think-tank review estimated that "with efficient institutions, stable administrations, and comparatively decent economic conditions, the Nordic sub-region could become an alternative partner to the European Union".[13] As one observer put it, "If 16+1 is not an existential threat to the EU, the addition of 16+1, 5+1 [the Nordic alliance] and 7+1 [Mediterranean Union] would certainly be one."[14]

When it comes to regional organisations which are already operational, China is not open to subgroups which may create a counterweight to its own views within 'the 16'. Observers have noted that China regards the Visegrad Four,[15] an existing grouping, as "subversive".[16] And the EU itself was not present at the first 16+1 Warsaw summit – in theory, because it was invited 'too late'. From the Bucharest meeting in 2013 onwards it was able to send a regular observer. Notably, between December 2010 and October 2013, or the period that coincided with the euro crisis and the start of China's cooperation scheme with CEE states, China held off from staging the High Level Economic and Trade Dialogue with the EU that had been decided back in 2008.

The subtext to all this is clear: although Chinese commentaries are at pains not to present the 16+1 scheme as a competitor to the EU, there is no doubt that it constitutes a form of competition to EU-derived funding and projects.[17]

12 AIIB's project description, available at Asian Infrastructure Investment Bank, "Republic of Azerbaijan, Trans-Anatolian Natural Gas Pipeline (TANAP) project" Project document of the Asian Infrastructure Investment Bank, PD0015-AZE, 7 December 2016, available at https://www.aiib.org/en/projects/approved/2016/_download/trans-anatolian/document/tanap-project-document.pdf.
13 "Sino-Nordic Relations: Opportunities and the Way Ahead", Institute for Security & Development Policy, 2016, p. 7, available at http://isdp.eu/content/uploads/2016/11/2016-Sino-Nordic-Relations-Opportunities-and-the-Way-Ahead.pdf.
14 ECFR interview in Budapest, April 2017.
15 Comprising the Czech Republic, Hungary, Poland, and Slovakia.
16 ECFR interview in Budapest, April 2017.
17 See, for example, Tian Dongdong, "Li's CEE trip boosts common development rather than poses threat to EU integrity", *Xinhua*, 28 November 2013, available at http://www.china-ceec.org/eng/ldrhw_1/2013bjlst/hdxw1/t1410524.htm, and "China-European cooperation on the Belt and Road Initiative: drive, dynamics and

To what extent does this leave the EU vulnerable? How tempting are Chinese offers to participating countries? CEE countries are indeed open to looking at the 16+1 and seeing what alternatives it may provide them which the EU will not. If nothing else, the 16+1 summits offer to each of the CEE heads of government an encounter. The events also help to lift the profile of these countries in China: "thanks to 16+1, this part of Europe was taken out from non-existence", commented one onlooker.[18]

Moreover, local gripes about EU processes make themselves felt too. In the wake of the Budapest and Warsaw summits, local observers from Romania and Serbia pointed to the inequality of eastern EU member states vis-à-vis their western European counterparts. Officials from CEE countries often complain of "double standards". They point to the much broader scale of past Chinese investment into France, Germany, Italy, and the United Kingdom and the compromises made by these governments in the interest of cultivating the relationship. Eastern Europeans often express envy at the value of M&A activity by China in western and southern Europe – including the most recent wave of purchases in Italy, Spain, and Portugal. European Commission enquiries and decisions are sometimes thought to be under the influence of the EU's largest economy, Germany, the most influential partner for CEE countries. One observer has argued that: "If Germany wants to cooperate with China, it does so bilaterally. If it wants to say no to China, it does this on the European level".[19] In Hungary in particular, the prospect of diminishing or vanishing EU structural funds played a role in the turn towards China: "Orban calculates that after 2020 he will need to pay the EU instead of receiving subsidies".[20] This was even more true of the non-EU members: "the Balkan states sense EU membership is a distant proposal, and they search for alternative partners".[21] Collectively, the Balkan states can leverage partnership with China to get more attention from the EU. Now, the Balkans are able to sit at the same table as Poland and others. Germany had launched a Balkan initiative to counter the 16+1 initiative. If the Juncker plan could envisage partnering with China for infrastructure investment inside the EU, why not on Balkan connectivity?[22] This element of competition is more generally a feature of Chinese offers. In the words of one Hungarian expert, "China put ideas up in the air and left us to be candidates and fight for the projects. Hungary came out first."[23]

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prospect".
18 ECFR interview in Budapest, April 2017.
19 ECFR interview in Budapest, June 2017.
20 ECFR interview in Warsaw, April 2017.
21 ECFR interview in Budapest, April 2017.
22 ECFR interview in Budapest, April 2017.
23 ECFR interview in Budapest, April 2017.

Loans alone

Although the 16 CEE countries would prefer to receive Chinese cash through investment, Chinese state companies overwhelmingly prefer loans issued on their own terms, and in fact above EU market rates. Chinese experts talk of "cash-starved eastern Europe". In addition, CEE participants look for potential benefits to themselves much more individually than collectively. Chinese bidders do not join EU tenders inside the EU, and have failed in their bids for tenders in accession states. This confines Chinese infrastructure projects to bilateral channels rather than joining – or competing with – a transnational format. Even transport lines that cross borders are not planned transnationally. The much-touted Belgrade-Budapest fast railway has only had a very small stretch constructed as yet, in Serbia. Negotiations with Serbia were long and drawn out; it had sought investment and risk-sharing with the Chinese companies, but eventually settled for a loan. Although the Hungarian portion was agreed in early 2017, the terms of the contract are unknown and remain the subject of much debate in Budapest – and at the European Commission, which has launched a preliminary enquiry regarding EU tender rules. Balkan states are more likely to host large Chinese projects – in large part because they do not have access to EU loans at favourable rates. Those projects that are actually considered, if not implemented, follow the Trans-European Transport Networks Commission blueprint – where China proposes credit to lines with low priority on the Commission's list.[24]

In 2014, China announced improvements in its preferential loans to 16+1 countries, in order to "lower its costs and expand its scale in a timely way".[25] But a scouting of CEE member states reveals a deep mismatch of expectations with actual Chinese propositions. China contrasts its self-invoked flexibility on projects with the EU's rules and conditionality that apply to public tenders, including on labour and environmental concerns. Chinese companies generally avoid public tenders, which they tend to lose in the Balkans (their public tender activity tends to concentrate on the Balkans), and prefer ad hoc arrangements. Informed sources in Brussels in fact describe this as a non-negotiable feature of BRI projects, making them incompatible with EU financing. So far, only non-EU CEE members have availed themselves of these loans – and at a price. While the press often cites a 2.5 percent interest rate for the Serbian railway project financing, the reality is different: in fact, the

24 For a complete blueprint of TEN-T, see http://ec.europa.eu/transport/infrastructure/tentec/tentec-portal/map/maps.html.

25 Zhu Xiaozhong, "China-CEEC cooperation: features and improvement direction", International Studies, No. 3 2017, pp. 41-50.

deal rests on a 4.6 percent interest rate, reduced to 3 percent if more than 50 percent of the equipment is Chinese, and 2.5 percent if it includes a more expensive fast train.[26] Understandably, a country such as Serbia, whose GDP in 2016 was only 87 percent of what it was in 1989, will be more sensitive to such offers. Other deals, such as the celebrated Belgrade bridge, relies on Chinese financing and 60 percent of the construction actually went to Chinese firms. As one expert noted, "to China the train business is not trade, it's construction. They want to win twice: financing and guarantees. Trade is the cherry on the top."[27] Even leaving aside the political context, Chinese loans clearly come with strings attached, in the form of supply by Chinese companies outside of any bidding process. No EU state would take up these terms, when even the commercial debt market allows for much lower rates.[28] When Poland issued a so-called "panda bond" in renminbi, it actually hedged it with a currency swap in euros, on which it had a negative interest rate of 0.17 percent. One observer described the dividing line within Europe as running "between those who need the cash, and those who think there are too many strings attached."[29]

The expensive terms for lending should not come as a surprise. Chinese loans to Russian firms, pegged to the dollar, have been placed recently at 6-7 percent interest,[30] while Chinese loans for infrastructure in some south-east Asian countries are said to go as high as 8.8 percent (such as with Sri Lanka).[31] Serbia thus signed on to $3.2 billion of new debt right after exiting an International Monetary Fund regime, but obtained Chinese refinancing for its bankrupt steel and petrochemical industry. Montenegro has taken on new debt equivalent to 21 percent of its GDP for an €830m mountain highway. This borrowing spree should, however, end in July 2017 when the Balkan Community Treaty comes into force, committing its signatories to EU rules for public markets and tenders. In other words, China's push inside the Balkans through infrastructure projects may be over, at least under present terms.

China also seeks to make explicit links between deals. For example, it promised Slovenia €1.3 billion in financing for a railway, in exchange for a 99-year lease on the port of Kopfer. This is understandable, as for China the combination provides perfect access, through the Brenner Pass, to Austria and central and northern Europe. But the irony of a deal that mixes an African-type linkage

26 ECFR interview in Brussels, July 2017.
27 ECFR interview in Budapest, April 2017.
28 ECFR interview in Brussels, July 2017.
29 ECFR interview in Brussels, July 2017.
30 Nicu Popescu and Michal Makocki, "China and Russia: an Eastern Partnership in the Making?", EUISS, December 2016, p. 29, available at https://www.iss.europa.eu/content/china-and-russia-eastern-partnership-making.
31 "China's Asian power play: Tom Miller on the future of OBOR", Sinica Podcast by Jeremy Goldkorn, available at http://supchina.com/podcasts/chinas-asian-power-play-tom-miller-future-belt-road/.

with a Hong Kong-type lease cannot be lost on everybody. Slovenia demurred, China declined to acquire a minority share of the port, and German and Austrian firms are now taking on the projects.

And it is precisely on these grounds that disappointment seems to be growing. Eastern Europeans do not reproach China for an excess of influence, but for its lack of genuine interest, or for the mismatch between its offers and the local expectations. Above all, it is Chinese loans which are at play: CEE countries do not need them, especially after the European Central Bank lowered its rates to zero in March 2016: "We don't need loans, we need investment in productive sectors, and greenfield investment, not acquisitions", said one commentator.[32] While imports from China generally outpace exports by a factor of 10 to 1, investment is scarce. While 2016 was a record year for Chinese investment in Europe, CEE countries only received €2.8 billion from China.

Indeed, the Riga 16+1 summit did not even address trade and investment. It focused instead on maritime "connectivity", but made explicit the need for all schemes to conform to EU rules and to the TEN-T blueprint. In other words, CEE member states rejected the temptation of exiting EU rules for the sake of loans from China.

The theme of the China-Europe rail connection is also receding. Although new train schedules and infrastructure between Europe and China still command media attention, experts and officials acknowledge that their impact is negligible. Not only do many trains go back empty, but, "In 2016, trains brought 150,000 tons of goods from China: this would fit on seven container ships, and maritime transport between China and Europe amounts to 150 million tons per year."[33] Even air freight from the EU to China amounts to 575 000 tons in 2016, with of course a much higher value.[34]

The CEE countries' own criticism remains ambiguous: they hint that with a larger offer, one taking into account EU rules instead of circumventing them, Chinese proposals might be irresistible. At present, Japanese and Korean investment stands as a contrasting and positive example. It is still unlikely that Chinese firms will be able to adapt quickly to Europe's regulations and ways of doing business.

32 ECFR interview in Budapest, July 2017.
33 ECFR interview in Budapest, April 2017.
34 ECFR interview with an airline industry source, November 2017.

Discarding the 'African approach'?

What one could call 'African approach' – itself an extension of informal and network-based business practices in China – is not taking hold in the EU's CEE member states. Some experts based in China, who want to strategise, occasionally sound naïve: one report from CASS described the transport corridor from the Adriatic as follows: "in retrospect, Nazi Germany also took this route to invade the European hinterlands from the sea".[35] There is clearly not much awareness of local sensitivities.

Much more spectacular are China's purchases of ports throughout the region, although not exclusive to it. But these are seldom investments in new installations. They are rather management takeovers and restructures – with promises of efficiency, as the example of Piraeus in Greece shows: container traffic has increased almost five-fold since the beginning of the takeover in 2010. China's offers are diverse, clearly overlapping, and based on the overall search for control of the logistics chain for its own exports, without any dependency on single routes. Another consideration, as for railways, may be overcapacity within China itself. The entire OBOR Eurasian railway blueprint (admittedly, a tall order) would by itself require an estimated 70 million tons of steel (or about one month of China's steel output). China now has a global monopoly on the production of harbour container cranes. According to a reliable observer, delegations from Cosco and other major Chinese firms have scouted ports all over CEE countries, as well as Italy, with identical praise for the centrality of each asset they want to purchase. Thus in the Adriatic Sea there is now a five-port scheme, with Italy in fact taking the lion's share through promise of an offshore port facing Venice.

The situation presents the EU with a dilemma. It is successfully countering Chinese attempts at economic fragmentation, clearly visible in the frontal assault on EU rules for public markets and infrastructure. In fact, the way in which CEE countries vote on anti-dumping has not changed much since 2011-12, which one observer sums up by saying that "we still stick to Germany, even Hungary."[36]

In sum, there is a lack of sophistication in the Chinese offers, whose blueprint for the CEE region is mostly inspired by experiences in developing and emerging countries. Strikingly, although China has termed Europe as the ultimate goal of its BRI, and has allotted considerable diplomatic resources to

35 Liu Zuokui, "Europe and the BRI: responses and risks", China Social Science Press, 2016, p. 75.
36 ECFR interview in Budapest, April 2017.

managing its relations there, it has not created or received the momentum that might be expected for very high-profile initiatives. It is unclear whether China will improve its specific offers to CEE member states in order to gain more traction for its economic interests. From a broad European perspective, a shift by China to address the issues of EU rules, and to cooperate with the EU on joint investment projects for infrastructures would be a welcome turn of events. For this to happen, China's officials and experts need to revise downbeat views on the European economy and political scenarios of a fragmenting Europe. Expressions of support for European integration have always coexisted in China's official line with a recurring trend for playing on the diversity and potential division of Europe. Addressing different interests among member states may be a challenge to Europeans, but the EU demonstrates over time its ability to do so. China should draw the consequences from its overt judgement in favour of European integration.

Public diplomacy and lobbying: How influential is China in Europe?

Xi Jinping's 'Chinese Dream', 'rejuvenation of China', and 'new Silk Road' have won a huge amount of attention in recent years. The fact that these slogans and ideas will be familiar now to an ever greater number of Europeans is a testimony to the extent of China's messaging throughout the continent. But what forms do its channels of public influence take? And what areas of concern should Europeans be taking particular notice of?

Xi Jinping has overseen a real shift from emulating the West's soft power to building up and branding China's own discourse. And beyond the headlines, the sheer attraction of cash from China has replaced old slogans such as "we have friends all over the world". Under Xi, China focuses on its own narratives, rather than show convergence with global values. It has pulled all the stops and advances its influence in two related forms: unabashedly providing new inspiring narratives of China to foreigners and Chinese alike, and using the reality or the suggestion of its financial firepower to nurture relationships.

In Europe, China's image is not uncontested: in European minds, the vision of China as a still-vibrant economy clashes with the image of an authoritarian regime. The frequently expressed official Chinese view is that the Western media are biased against China. But the status of China in the eyes of European public opinion is actually more mixed than first appears. Negative views can coexist with appreciation for China's potential and influence. Thus, while polls show that Italians hold the most unfavourable view of China among all Europeans, Italy stands out in the research conducted for this Power Audit research as the country with the widest range of Chinese activity

– from immigration trends and small firms to major investments, cultural and scientific events, and cooperation. Conversely, in Poland, where Chinese investment and influence on current government policy are quite limited, attitudes towards China are the least negative.[1]

So there is no necessary correlation between public opinion on China in a given country and the level of China's activity there. But how much is China really working to produce outcomes in its favour, and how successful are these efforts? To what extent are Europeans drawn to the Chinese flame, and how can one disentangle active Chinese efforts to exert influence from Europeans' own active efforts to court China? Over the course of interviews across Europe for this Power Audit, all views were heard – ranging from one informed judgement that the methods that Chinese influence and lobbying deploy in France are "innumerable",[2] to the opinion in several (but not all) central and eastern Europe (CEE) member states that proactive Chinese lobbying is confined to the role of its embassies – less outgoing and sophisticated than Russia's – but that China's influence is large because of its economy and companies. It is on economy-related decisions that China's hand shows most often in member states. But in Xi Jinping's China, influence also goes beyond soft power and lobbying to exerting tougher forms of influence. And when Chinese core interests are at stake, this can take the form of explicit pressure and cyber threats.

Chinese influence or Europeans volunteering?

One key finding from the research for this Power Audit is that China often hardly needs to make any effort when it comes to engaging with the rich and powerful of Europe.[3] Politicians, business intermediaries, and government officials, or even local officials who have no inkling about its negotiating style, are more than willing to make overtures towards China. And its officialdom is clearly aware of the importance of this trend, generously sharing out the label "friend of China" or, in some cases, "old friend" as it does with words like "strategic", "special", and "comprehensive" relationships with states. To cite a Chinese proverb, "flowing water will always find a canal".

However, it can sometimes be hard to tell the difference between Chinese lobbying and unabashed courtship by European governments, some of which

1 In 2017, according to Pew Research, 59 percent of Italians have an unfavourable view of China. Pew Research Center, "Opinion of China: Do you have a favorable or unfavorable view of China?", Global Indicators Database, updated with polling data from Spring 2017 Global Attitudes Survey, available at http://www.pewglobal.org/database/indicator/24/group/3/response/Unfavorable/.
2 ECFR interview in Paris, July 2017, and ECFR background research.
3 ECFR background research

are ideologically inclined towards what they feel the Chinese state stands for. In the recent case of the Greek government preventing a united European stand on China at the United Nations Human Rights Council in June 2017, China's Global Times commented that, "The Chinese government never asked Greece for support on the human rights vote."[4] It is indeed hard to separate the animosity towards liberal democracy in the Tsipras government from the attractiveness of Chinese investments. In Alexis Tsipras's own words: "in the last few years, Europe was a political and economic punishment for us ... China seized the opportunity to invest. And, you know, those who take risks can succeed in the economy".[5]

In Hungary, meanwhile, Viktor Orban's extraordinary turn from previous support for the Dalai Lama to advocate for China is also likely to be a mix of interest and changing ideology. In central and eastern Europe in particular, the comment is often heard that Chinese diplomats do not dictate, but that their interlocutors know well what to say – and what not to say. They know that mentions of Taiwan, Tibet, human rights, and now the South China Sea can trigger a diplomatic crisis. A smoking gun of a Chinese diktat is seldom found, because it need not exist.

British freedom of the press has allowed a closer look at this issue: in 2015, the Daily Telegraph and Channel 4 News sent what appeared to be Hong Kong journalists to the offices of two former foreign secretaries and recorded their offers of service to Chinese firms.[6] Investigative journalism has not replicated this media feat in other major member states where former leading politicians often play a special role in relations with China. As for senior civil servants and their eventual conflicts of interest, each member state has its own rules, as does the EU. Among both, these can seem fairly lax: a former EU ambassador to Beijing retired to become a paid adviser to Huawei, as has a former British MI5 executive; the former head of France's treasury department in the ministry of finance also resigned in order to head a private French-Chinese investment fund. In France, some relatives of key public operators dealing with China seem to do well on the country's booming art market.

One thing is clear: there is absolutely no way to classify friends and lobbyists for China according to political affiliation. What does Bart De Wever, the Flemish

4 Liu Lulu, "NYT sees Chinese investment in Greece through Western centrist lens", *Global Times*, 31 August 2017, available at http://www.globaltimes.cn/content/1064219.shtml#.WavCFXOMECo.linkedin.
5 "Alexis Tsipras au Figaro : «L'Europe, c'était la punition»", *Le Figaro*, 23 November 2017, available at http://video.lefigaro.fr/figaro/video/alexis-tsipras-au-figaro-l-europe-c-etait-la-punition/5656095589001/.
6 Patrick Wintour, "Jack Straw and Malcolm Rifkind face 'cash for access' allegations", the *Guardian*, 22 February 2015, available at https://www.theguardian.com/politics/2015/feb/22/jack-straw-malcolm-rifkind-cash-for-access-channel-4-dispatches-telegraph.

separatist right-wing mayor of Antwerp who admires China, have in common with Zahari Zahariev, former member of the Supreme council of the Socialist Party, who runs a Belt and Road Initiative (BRI) association in Bulgaria and is a frequent visitor to China?[7] And yet they share similar views. De Wever has written that "compared with the panic flip flop of some eurocrats in Brussels, the Chinese state seems to be a sign of efficiency (…) as Chinese look to the West, they see democracies who are mostly free to hand out gifts to all kinds of interest groups. The Chinese learned the lessons of their history, while Europe has forgotten the old roots of its freedoms."[8] Zahariev has claimed that "the principle that 'new civilization realities require new managerial decisions' … allowed the CCP leadership, without betraying the socialist character of the country, to successfully approach the most urgent challenges of the global problems of our present day."[9] The blog of Jean-Pierre Raffarin is a gushing source of Chinese proverbs and paeans to the Silk Road. The former French prime minister has built a role as an informal ambassador to China, and he sums up the common thread thus: "Opportunism in China is a virtue, because it answers the requirements of the day."[10]

In Brussels, lobbyists and their firms have, in principle, to join a register. In 2017, the largest-spending Chinese company on Transparency International's published list from these declarations is only 10th on that measure (and it is again Huawei).[11] But it is said that cash subsidies also flow from the China's European Union diplomatic mission, and a list of conferences and seminars in Brussels will immediately reveal that almost all think-tanks dealing with international relations and economics or Asia receive Chinese sponsorship. Special mention should be made of ChinaEU, a business association in Brussels, which is also under contract to the EU to link up European innovative start-ups with Chinese companies.[12] More surprisingly, Euractiv's June 2017 report on "EU-China: mending differences", on the eve of an EU-China summit, was sponsored by China's mission to the EU.[13]

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7 ECFR background research.
8 Bart De Wever, "Bart De Wever over China: lessen van een keizerlijke hofeunuch", *De Tijd*, 27 May 2017, available at http://www.tijd.be/opinie/algemeen/Bart-De-Wever-over-China-lessen-van-een-keizerlijke-hofeunuch/9898164.
9 Zahari Zahariev, "The project 'One belt, one road' in the context of the current political situation", Defend Democracy Press, 25 June 2016, available at http://www.defenddemocracy.press/%D1%82he-project-one-belt-one-road-context-current-political-situation/.
10 Jean-Pierre Raffarin, "L'invité de Patrick Cohen sur France Inter", Carnet de Jean-Pierre Raffarin, 13 November 2015, available at http://www.carnetjpr.com/page/5/.
11 "Companies with the highest EU lobbying budget", in Daniel Freund, 7.000 and counting : Lobby meetings of the European Commission, Transparency International, December 2015, p. 7, available at https://transparency.eu/wp-content/uploads/2016/10/Lobby-Meetings-European-Commission.pdf.
12 Politico has profiled China EU's president, Luigi Gambardella, as "Europe's Mr. China" in Nicholas Hirst, "Europe's Mr. China, Meet Luigi Gambardella: Brussels' biggest Beijing booster", *Politico*, 31 May 2017, available at http://www.politico.eu/article/gambardella-is-radio-beijing/.
13 "EU-China: Mending differences", *Euractiv.eu*, 29 May 2017, available at https://www.euractiv.com/section/china/special_report/eu-china-mending-differences/.

The China-EU relationship is hardly reciprocal, despite some Europeans' enthusiasm for engaging with China. The Chinese government seems inclined to curb such activity in its own country: no foreign firm can hire a top Chinese cadre, although they move often between the party-state and domestic Chinese companies. Top retired party leaders and cadres usually disappear from public view.

Chinese versus Russian influence: a balancing act

Chinese influence in eastern Europe does not greatly differ from that in western Europe. At most, one can find that it is often present day social-democrats in the East who stand closer to China. Because of the sensitivity to communism from societies formerly under Soviet control, there may in fact still be more negative perceptions and expressions towards China in the CEE region. Nonetheless, Russian influence remains the main focus.

While policy towards China in the Czech Republic is hotly debated, and large public demonstrations have taken place during official Chinese visits, in Poland the public debate is more muted – after all, Russia is the primary consideration and cause of fear. But according to converging accounts from Poland, in the late summer of 2016 Jaroslaw Kaczynski identified China as Poland's second greatest threat after Russia. And defence minister Antoni Macierewicz has been recently blocking Chinese attempts to make inroads into Poland. Both are countering a more welcoming trend from the previous liberal government, a trend which is, however, still active in Poland's highly autonomous local governments.

What is peculiar to all this apparent Chinese activity is that business, actually profitable to Chinese lenders, according to the research for this Power Audit appears to be another item in the toolbox for building relations. For every apparently positive bilateral business deal, there is just one short step to making continued business conditional on other things. Is this remarkable set-up a consequence of intense Chinese lobbying? Or have many potential investees made the rope with which they will hang themselves, by surmising that Chinese money will be abundant and cost-free? This may be the natural consequence of how China's state-owned enterprises do business. Official lobbying by Chinese representatives seems more limited outside the halls of diplomacy than the implicit link between friendly behaviour and business deals.

Indeed, in almost all CEE countries, Chinese embassies are less active and influential than Russian embassies. Observers of the 16+1 framework, which focuses on the CEE region, note that the Chinese usually steer clear of geopolitical issues rather than seeking them out. It may be shyness on the part of the 16 CEE states, or divisions among them, that are responsible for the fact that the issues of Crimea, Donbas, and Russia's behaviour have never been brought up in a 16+1 summit, in spite of expectations by some local diplomats that this would be the case.[14]

But China's strength does not lie in the manipulation that Russia is so famous for, nor in any particularly convincing propaganda. Indeed, it is the promise of investment and jobs that has been seducing central and eastern Europe. In Poland and the Baltic states, seeking alternatives to Russian economic relations is certainly attractive. A seasoned Polish observer says: "we want to go around Russia without making it angry". The Baltic states are anxious to bolster direct relations with China, which is now using Belarus as a convenient logistical springboard to the region. After all, one only needs to cross the Baltic to find that Finland was happy to receive Xi Jinping in April 2017 for the 100th anniversary of its independence … from Russia.

Soft power and influence over the media

Chinese soft power is a very disputed notion. It is often cited in cases where China's leverage through finance and trade is what is really meant by soft power. Nonetheless the Chinese government has made increasing efforts at influence through education and the media.

In terms of education, the growing number of Chinese students in European universities does not so far seem to have led to pressures on academic institutions – as it does on Australian and north American campuses. But a key, but still too little understood, issue in Europe is the status of the ubiquitous Confucius Institutes, managed from Beijing by Hanban, a party-state organisation led by vice-premier Liu Yandong. There are around 160 Confucius Institutes operating in Europe – more than in north America or Asia.[15] The institutes are in principle harmless – teaching Chinese and some cultural content, rarely venturing directly into topical issues. But, unlike the Alliance Française, British Council, or Goethe Institute, they are almost

14 Interview with a diplomat from a CEE member state prior to the 2014 16+1 summit in Belgrade.
15 "Confucius Institutes and Confucius Classrooms", Confucius Institutes headquarters (Hanban), available at http://english.hanban.org/node_10971.htm.

systematically embedded within universities. Their teaching material is provided by China, and projects such as conferences are vetted by the head office in Beijing. They are also a – minor – source of profit for the universities where they are based. Through them, a Chinese agency can acquire and exercise leverage on other parts of the university – and particularly on all things Chinese. Given the underfinancing of Chinese studies in Europe, this also means that the first layers of language and knowledge acquisition, followed by agreed exchange programmes, are acquired through official Chinese institutions and not at independent academic centres. It is hard to deny the usefulness of these institutes for language learning (although they are by far not the best places in terms of learning techniques), but they should be separate from free academic institutions. The cost-benefit advantage in having Chinese learning funded externally is more than matched by the influence gained for China: a generation of foreign Chinese language speakers will have been trained with PRC-driven methods and course material, with a near-monopoly where academic funding is not adequate.

China's influence on the media has been limited in the recent past. An older and anecdotal trend was that Chinese interests, strangely enough, bought into public classical music stations – this was the case for a short time for Radio Classique in France, and there are cases in Finland and Hungary. [16]These stations do have a high level audience, but the echo clearly does not match that from the purchases of European football clubs – which are a consequence of Xi Jinping's declared passion for the sport, with perhaps a bit of capital flight thrown in.

One growing trend is the number of agreements whereby Chinese news outlets provide content to the media. The trend involves hooking up with European print media through paid supplements. Thus the China Daily, the official English-language Chinese Communist Party newspaper, gets its "China Watch" placed in newspapers all over the world. Among publications concerned in Europe: Le Soir and De Standaard in Belgium, Zemia in Bulgaria, Le Figaro in France, Handelsblatt in Germany, El Pais in Spain, and the Daily Telegraph in the UK. In the case of El Pais, the agreement seems to have coincided with reopening access to the paper's website for internet users in China. There are also agreements in place where the Xinhua news agency acts as a news provider – as other press agencies would do – and these are more confusing because the origin of the content is less visible, if it is visible at all. In Greece, the Athens Press Agency has a content agreement with Xinhua,

16 ECFR background research.

while the Maltese National Broadcaster has one with CGTN (the successor name to CCTV). At a recent Silk Road Forum hosted by the Athens-Macedonian News Agency, a number of news agencies and press outlets pledged mutual cooperation including news coverage and staff exchanges; the organisations hailed from CEE, Balkans, and Mediterranean counties, as well as Turkey and Russia.[17] Other, unsuccessful, offers are known to have been proposed. The sums involved in these agreements are not made public, and it is of course striking that at the same time some prominent European publications such as Le Monde or Deutsche Welle are inaccessible in China. The recent withdrawal of a Chinese film from the Annecy animated film festival in France shows that "official pressures" can extend to soft power products.[18] This contrasts with Chinese efforts to promote its soft power with blockbusters such as The Great Wall (2016) or Wolf Warriors II (2017).

More often than straightforward criticism of China, it seems to be the publication of news about leaders' families and their financial activities that motivates bans on Western media inside China. These come and go, and the logic of censorship sometimes seems balanced by other considerations, such as an influential business audience. Thus, the Financial Times, now owned by Japan's Nikkei Group, regularly covers the financial dealings of top Chinese firms and leading families, yet it has a mostly unblocked Chinese edition with 1.7 million online readers. But other Chinese language foreign websites are often blocked. More generally, as one corporate poll reveals, 98 percent of foreign correspondents in China judge their working conditions to be suboptimal, and 57 percent report incidents of harassment.[19]

The issue also exists at in publishing. Today, the Chinese market pays royalties – and these can be considerable for publishers of educational and scientific material. Self-censorship of books to be translated in Chinese is not uncommon. In August 2017, the world's Sinology community was rocked by a Cambridge University Press decision to agree to censorship of more than 300 China Quarterly articles from the Chinese website for its publications. CUP later relented, but it has emerged that other publishing houses had faced similar requests. In essence, there is a cost to access the Chinese market, and it is not only a matter of local partnership, but also of submitting to local political

17 "National News Agencies Agree to Closer Cooperation at New Silk Road Forum", *Athens News Agency - Macedonian Press Agency*, 10 September 2017, available at http://www.amna.gr/home/article/185716/.
18 Catherine Lai, "Organisers forced to withdraw Chinese animated film from French festival, citing 'official pressures'", *Hong Kong Free Press*, 9 June 2017, available at https://www.hongkongfp.com/2017/06/09/organisers-forced-withdraw-chinese-animated-film-french-festival-citing-official-pressures.
19 This is according to a poll by the Foreign Correspondents' Club of China, cited in: Roy Greenslade, "Foreign journalists working in China face increased harassment", the *Guardian*, 15 November 2016, available at https://www.theguardian.com/media/greenslade/2016/nov/15/foreign-journalists-working-in-china-face-increased-harassment.

conditions, as major American social media providers have learned: Yahoo, for example, censors the results of its search engine on China-based web enquiries, and Google remains blocked.

Money beyond influence

Perhaps most explicit is the issue of corruption. Because CEE member states often have a different political and legal background, and partly because of the very nature of public infrastructure projects, corruption more often occurs there. In a remarkable case, a report by China's Academy of Social Sciences on BRI examines corruption between Macedonia and Chinese companies.[20] It mentions the alleged corruption of prime minister Nikola Gruevski and Chinese bidders for two expressways, and explains that this resulted in ignoring EU bidding rules and is therefore detrimental to Macedonia's EU accession prospects.[21] It advises the Chinese government to release the results of its own enquiry in order to cooperate with the EU. As seen elsewhere, the mention connecting the issue of corruption with that of observing EU rules is not coincidental.[22] In this case, the CASS report takes the longer view – China and its companies' future interest may indeed be to observe EU rules for tenders. Indeed, it is often projects that have been turned down by the EU for lack of sustainability that lend themselves to deals with Chinese firms. There are allegations in Serbia and beyond that the high interest rates paid by Serbia for the Belgrade-Budapest rail project are directly tied to corruption at the top echelons of the country. On the Hungarian side, the reasons for never making public the terms of a financial agreement on the Hungarian portion of the line – in spite of repeated EU requests – may have to do with kickbacks as well on the rates. The issue of corruption and bending or ignoring rules is also indirectly raised by knowledgeable Polish observers: both Chinese and Polish sides exhibit a distinct lack of interest in infrastructure and investment largely because Poland sticks to EU rules and fights corruption in the public domain.

Golden visa: the chequebook and the stamp

"Golden visa" colloquially refers to the sale of residence permits or, in some cases, citizenship. The practice, which has long taken place in Canada or Australia, is now more widespread in the EU than one might think. In 2015,

20 Liu Zuokui, "Europe and the "'Belt and Road Initiative': Responses and Risks", China-CEEC Think Tank Book Series, December 2016, pp. 66-68.
21 Gruevski, former nationalist prime minister, was indicted in Macedonia on five counts of corruption, including the Chinese highway construction case, in June 2017. See: http://www.balkaninsight.com/en/article/ousted-macedonian-pm-risks-years-behind-bars-06-30-2017.
22 See chapter 3 – China's investment in Europe: Opportunity versus security.

the International Monetary Fund estimated that half of EU countries have golden visa schemes under various names. It cited France's as the costliest, at €10 million, the cheapest being Hungary's.[23] Applicants occasionally shop around: "In Cyprus, they come, they see, and then they say that for that money, they will invest in Spain and have a Schengen visa", one observer told ECFR.[24] Indeed, a visa to one country can indeed give access to the 26-country Schengen area, and citizenship can enable visa-free travel throughout the EU. Hungary has seen 6,500 Chinese applications for residence. The required investment into public bonds (of unknown variety) includes, according to local sources, a €30,000 "fee", reportedly shared among a very small number of individuals, perhaps just five or six according to one source. Hungary's scheme is currently suspended pending national elections.[25] Notably, a golden visa scandal, involving one government figure, broke out in Portugal in 2014. Again, this may have nothing to do with the influence of China's government – which in fact may currently resent the hot money outflow resulting from the schemes: in Hungary's case, over €2 billion, and over €1 billion in Portugal by 2014 (and for this reason the scheme has been reformed but retained). At the time, the promoter of the scheme explained the local interest in crude terms: "Portugal is competing against around 10 other European countries with policies for attracting investment related to the authorisation of visas … Therefore it is important to separate the wheat from the chaff: any investment we miss, others will capture, and the positive consequences for the economy will benefit other countries instead of Portugal".[26] By 2017 indeed, €2.7 billion had been invested in Portugal through the "golden visa" scheme.

Chinese leverage on core interests

Chinese diplomats routinely visit European government officials and request support for Chinese goals and interests: that is, after all, a traditional function of diplomacy. Genuine pressure from Chinese diplomats – in the form of threats – is cited only where issues very close to the Chinese national interest are involved, that is: Taiwan, Tibet, and statements on the South China Sea. The Dalai Lama's visits to European countries always trigger reactions from China. Nonetheless, these reactions are not equally calibrated: they can involve low-level bilateral tensions which ministries of foreign affairs are able to

23 Xin Xu, Ahmed El-Ashram, Judit Gold "Too much of a good thing? Prudent management of inflows under economic citizenship programs", IMF Working paper, WP/15/93, May 2015, available at http://www.imf.org/en/Publications/WP/Issues/2016/12/31/Too-Much-of-a-Good-Thing-Prudent-Management-of-Inflows-under-Economic-Citizenship-Programs-42884.
24 ECFR interview in Budapest, April 2017.
25 ECFR interview in Budapest, April 2017.
26 Quote of Paulo Portas, deputy prime minister: in Natasha Donn, "Golden Visa corruption scandal continues to rock Portugal", Portugal Resident, 20 November 2014, available at http://portugalresident.com/golden-visa-corruption-scandal-continues-to-rock-portugal.

alleviate – this was the case in Denmark and Slovakia after the Dalai Lama's visits in 2009 and 2016 respectively. Estonia received the Dalai Lama in 2011, but relations with China remained unthawed until 2013 after an informal apology from the Estonian foreign minister made in China. But China can also respond with retaliation on economic and trade issues. Following a private visit by the Dalai Lama to the president of Lithuania, Vilnius faced a number of problems with issuing certificates for the export of Lithuanian agricultural products to China. And after signing the US-led statement condemning China on human rights in March 2016, the Irish government faced the same threat to beef exports. It finally circumvented this by signing a letter a month later reaffirming Ireland's positive relations with China. When the issue of the Dalai Lama visiting Belgium along with that of visits to Taiwan by regional ministers, the Chinese reaction went as far as threatening to withdraw large investments. By contrast, when the city of Milan decided to grant honorary citizenship to the Dalai Lama, it created tensions, but only at the regional level. European public opinion also has its say on issues such as the Dalai Lama and Tibet. This is how the "Tibet flag case", involving demonstrations in Denmark, became a public controversy in 2012. At the time, the Danish People's Party turned its fire on other political parties for "dancing with China".

Some countries have also managed to turn initial Chinese reactions to the Dalai Lama's visits right around. The Czech Republic stands out in this respect: following the Dalai Lama's visit in 2009, China and the Czech Republic held no political dialogues until 2014. Throughout this period of tense bilateral relations, the Czech government was very critical of China and its human rights record. But in 2014 relations resumed after an apology by newly elected government's foreign minister during a visit to China. Relations then really blossomed with Xi Jinping's visit to Prague in 2016. When the Dalai Lama returned to the Czech Republic the same year, the Czech prime minister and two more senior elected figures penned a letter to the Chinese government denouncing the trip as an initiative by "private politicians".[27] Meanwhile, the Dalai Lama was received by Slovakia's prime minister, Andrej Kiska, resulting in the cancellation of an official Chinese visit. One Chinese company, CEFC China Energy Company Limited, has invested €1 billion in the Czech Republic, including media and football clubs. Its local president is a former defence minister from the time when Milos Zeman was prime minister. The Czech security service's most recent published report concluded that "as far as China' activities in 2016 are concerned, the intensity and aggression of its

27 "Prague seeks to calm China over Dalai Lama visit", *Deutsche Welle*, 19 October 2016, available at http://www.dw.com/en/prague-seeks-to-calm-china-over-dalai-lama-visit/a-36084577.

influence operations grew and Chinese espionage in the Czech Republic and against Czech interests and security increased”.[28]

The Chinese toolbox for curbing member states’ activity on its own core interests has proven to be efficient and successful. A number of countries have dropped their human rights dialogue with China altogether. France has replaced it with a dialogue on “human exchanges”, while others now prioritise exchanges on legal issues.[29] Denmark, however, has found a way to circumvent Chinese pressures: it uses the trade and economics dialogue to mention human rights. But overall, in this context of shrinking engagement with China on human rights, the yearly EU-China human rights dialogue is something of a fig-leaf for member states. Several human rights organisations have called for its cancellation. It is far from certain that this would lead to more activism on the part of member states, and it might inadvertently confirm to the Chinese partners that Europe’s stand on values is extinct.

Cyber threat

Cyber attacks and fake news would seem to run counter to the goal of gaining influence in a given country. And in fact China, in spite of its enormous propaganda machine, is far less likely than Russia to manipulate news beyond its own borders. Cyber-hacking instances from Chinese quarters seem to be connected to spying or to potential sabotage. Sources which name People’s Liberation Army officers and PLA-controlled units as the origin of some hacking incidents are American, not European.

Yet China does seem to practise the “foot in the door” approach, by hacking institutions, and hacking individuals who are counterparts to China’s government officials. Southern European countries seem to be the most exposed. One 2016 attack on the Italian ministry of foreign affairs was attributed to hackers from China in 2016, and remains the most striking case. But Spain and Portugal may have also been targeted – between January and July 2016, no fewer than 207 Portuguese companies reported cyber espionage attacks, without clear identification of authorship. In CEE countries, a discrepancy exists between China and Russia, which comes first as a cyber threat.[30] In reality, the number of cyber attacks by China in this region is

28 “Annual Report of the Security Information Service for 2016”, Intelligence Service of the Czech Republic, 24 October 2017, available at https://www.bis.cz/vyrocni-zpravaEN16e1.html?ArticleID=1136.
29 The first session was held in April 2016. See “Dialogue franco-chinois de haut niveau sur les échanges humains”, Embassy of France in China, 14 April 2016, available at https://cn.ambafrance.org/Dialogue-franco-chinois-de-haut-niveau-sur-les-echanges.
30 Kadri Liik, “EU Russia Power Audit”, European Council on Foreign Relations, to be published.

probably more limited.

The Russian factor is also very much present in the Nordic and Baltic states. Nonetheless, in Finland and Denmark, Chinese cyber threats are high on the political agenda, especially with regard to industrial and intellectual property espionage. The same applies to Sweden, which experienced it in 2009. Indeed, the Swedish Security Services arrested a man related to the Chinese embassy for a cyber attack that was aiming to map Uighurs in exile. The Baltic countries have benefited from the Russian experience and built up a cyber defence system able to counter Chinese threats. Among European countries, Estonia is one of the few which carries out large counter cyber attack exercises. Tallinn also hosts the NATO Cooperative Cyber Defence Center of Excellence. Since 2016, Estonia has faced test attacks on a regular basis, leading the country to define a cyber defence policy on China within its general cyber deterrence policy. Western European countries' approaches lean more towards engagement. In Germany, China is ranked second after Russia as a cyber threat. Nonetheless, Berlin engages with Beijing on this issue through the German-Chinese intergovernmental consultations. In the UK, cyber is also part of the security dialogue with China.

But China and Europe may be talking at cross-purposes in their vision of cyber security. The European goal appears to be to reinforce privacy and protection; the Chinese vision calls for more state control in general. This will be an obstacle to real cooperation between Brussels, the member states, and Beijing on cyber crimes and cyber space. It indeed echoes issues highlighted around China's new Cybersecurity Law, which came into force in June 2017. The law requires companies and their partners operating in "critical sectors" to store their data within China, and it requires "technical support" from network operators to authorities when asked. Crucially, source codes and encryption are not excluded by this definition.[31] As it is, this law, initially drafted in November 2016, has been amended in a direction that reflects some of the foreign objections, and particularly investor concern.

Overall, Chinese public diplomacy and lobbying are very much on the increase. They have not reached the level of Chinese influence in south-east Asia or Australia, and many of their vectors are actually European free agents in search of Chinese cash. This can make it difficult to tell the hand of the

31 An unofficial translation of the law is found on the China Law Translate website: "2016 Cybersecurity Law", China Law Translate, available at https://www.chinalawtranslate.com/cybersecuritylaw/?lang=en. The original text can be found at: National People's Congress, 7 November 2016, available at http://www.npc.gov.cn/npc/xinwen/2016-11/07/content_2001605.htm.

Chinese state from a much more diffuse web of influence-peddling through Chinese firms, European companies seeking China's goodwill, consultancies or stringers seeking to be intermediaries, and politicians in search of a role. Nevertheless, the spread and strength of China's presence already in Europe means that the rise in its influence through concerted public diplomacy and lobbying has not yet reach its peak, likely not even close.

Putting the ‘strategic’ into ‘partnership’: Urgent steps, future challenges

It is always useful to call a spade a spade: China’s foreign policy has entered an unprecedented historical phase, in what is officially called a “new era”.[1] The remaking of a national ideology, crowned by the “rejuvenation of China” and increasingly enforced in Chinese society, leaves little room for convergence between China and Europe. China’s foreign policy remains pragmatic whenever needed. But neither China nor Europe have a compelling need for each other, save in continuing much, but not all, of the business of daily trade. One might in fact reverse the famous saying of Emperor Qianlong to George III and his envoy in 1793. Then, it was “we possess all things. I set no value on objects strange or ingenious, and have no use for your country's manufactures”.[2] Today, it is more that China professes to find no use for Europe’s norms, values, and ideas.

Europe has an additional problem, which is that of leverage. Some Europeans may believe in a scenario where the US is on the way down, and China on the way up: that is essentially the debate among Chinese strategists. But it is hard to persuade these that Europeans themselves are on the way up and likely to keep level with China. Without strategic assets and in fact direct strategic contact with China, the issue of a strategic relationship is moot – although that of standing by allies and like-minded nations is not. Yet if Europe reinterprets its engagement more realistically as dealmaking – the “art of the deal” – this also requires leverage, as every negotiator knows.

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1 “Secure a Decisive Victory in Building a Moderately Prosperous Society”.
2 Henrietta Harrison, “The Qianlong Emperor’s Letter to George III and the Early-Twentieth-Century Origins of Ideas about Traditional China’s Foreign Relations”, The American Historical Review, Volume 122, Issue 3, 1 June 2017, pp. 680-701, available at https://doi.org/10.1093/ahr/122.3.680.

China, of course, would never admit openly that Europe has leverage over it. In the current situation, it has first underplayed the issues of market economy status and investment screening, perhaps factoring the likelihood of intra-European divisions. Neither did it take much notice of the political uplift from Dutch, Austrian, and French elections, which diminished the prospect of a fragmenting Europe. The level of comment within China hardened in late August 2017, with a biting commentary from a State Council think-tank accusing the EU of torpedoing the joint communiqué of the June 2017 summit, and with a sharp and angry official retort by the ministry of foreign affairs to a German call for European unity in dealing with China.[3] This, indeed, is stonewalling in action.

Yet the EU has the power of the market and private initiative, and it enjoys a systemic cohesion that makes up for the vagaries of member states. Europe is healing and is likely moving again towards greater unity. Its task now is to make clear to China that further access to its large market and stable investment scene requires a more open attitude to negotiations. And that it will be looking for genuine moves towards reciprocal access in the future evolution of this relationship.

For now, China remains convinced in its view that it is Europe which stands at risk of leaving itself stranded in a world where other emerging economies, Russia, and even America may move away from a liberal order. In fact, European negotiators detect an increasing self-assuredness on the part of their Chinese counterparts where the Silk Road is concerned; that Europe will have to come around or face isolation, not the reverse. The need for ideological legitimacy on China's side hardens the edges of the relationship; this is an age where Chinese diplomatic statements read like a competition for more quotes of the paramount leader. And 'divide and rule' – long Europe's fear – remains an instinctive Chinese approach to Europe, notwithstanding declarations to the contrary.

In 2009, observers still hoped for "reciprocal engagement" (the formulation in ECFR's first EU-China Power Audit) or "positive reciprocity", aka carrots without sticks. Today, China is very much inside Europe while simultaneously shutting much of Europe out of China. If reciprocity does advance, it will be at best incremental with China as it is.

3 See "A dog day's afternoon" case study in opening chapter.

Four urgent short-term remedial steps

There are therefore four key steps that Europeans should take, urgently, in order to respond to China's new ambitions in a way that protects European interests.

Complete the construction of an EU-wide system of investment screening

A Europe-wide consensus on investment screening is possible but will need strong advocacy. Some member states remain wary of a system which they see as incompatible with liberal principles and – or – politically risky in their relations with China. Some simply seek more Chinese investment as a priority and may be tempted to try to circumvent EU processes to obtain finances. Yet screening will be an absolute necessity if Europe is to avoid a repeat experience of what went on with goods since China's admission to the WTO in 2001. Europe opened up scrupulously while China began sealing itself off with all sorts of behind-the-border barriers. This time around, Europeans cannot afford the one-way sieve with which China absorbs their technologies through snapping up companies and human resources while Europeans are denied access to the growing Chinese science and technology capacities. As much as European public budget-holders would love to procure from inexpensive Chinese makers, conceding them public markets in Europe without reciprocity is economic suicide. Screening will prompt Chinese recriminations over "discrimination". But China's own economic governance is more, not less, biased against foreign investors. Europe should set about calling time on China clinging on to its developing economy status, which gives it an indefinite advantage over its competitors.

Replace dispersion with common strategies

The European version of the famous prisoner's dilemma must end. EU member states must better share responsibility for protecting European interests in sensitive areas such as international law, border and maritime issues, military cooperation, or surveillance of activities such as sensitive or dual high-tech transfer. They must ensure greater scrutiny at a common, not member state, level. In particular, Europeans should achieve greater cohesiveness and coherence in Europe's military diplomacy with China, which currently suffers from dispersed initiatives by member states. On economic grounds Europe should maintain a non-discriminatory posture, to encourage China to return one day to path of reform and a convergence of norms. But on strategic issues Europeans must make clear that its policies are informed by China's behaviour and by the dangers that it may present in the future.

Prevent new investment rules from affecting other aspects of relations

Acting on investment screening is necessary but risks bringing about retaliation from the Chinese. As a result, while shoring up on the investment front Europeans should also scope out gestures towards China which would help maintain cordial relations. The current reading of European actions in Chinese policy analysis circles is highly political and sometimes emotional – it often presents investment screening as discriminatory, or part of an anti-China coalition that includes Japan and the United States. For EU and member state representations in China, this will require patient and coherent diplomacy that clearly explains the stakes for Europe – a level playing field, and the fact that preserving ownership on critical technologies, as on intellectual property, is normal and not discriminatory.

Leverage Europe's like-minded partners in Asia

At times, China's foreign policy looks as if its goal is to put each of its partners in separate and closed boxes. Europeans have values in common with other democracies and interests even beyond these. Keeping our lines of communication open with the US, regardless of some choppy waves, is essential on both counts. The hedging strategies of major Asian powers towards China, especially those that Australia, India, and Japan practise, increase their interest in Europe. These states are looking for reliable partners. This requires signature initiatives, beyond the narrative on common values.

Six foreign policy circles in the future of EU-China relations

Much of this China-EU Power Audit has focused on direct relations with China, and on issues regarding China's presence inside Europe. There are broader strategic challenges too. One can draw six strategic 'circles' radiating outwards from Europe where we must increasingly reckon with China. Europeans must be clear about their own "core interests", to borrow a leaf from China's book, enlist its cooperation wherever possible, and avoid least desirable outcomes.

Europe's neighbourhood

The first circle concerns those crises which affect Europe directly and where China could supply either help or hindrance. Here, Europe has few positive incentives at its disposal to influence China. But is has never linked its displeasure with European positions on issues that concern China more directly.

On refugee and humanitarian aid issues, China has been remarkably absent when one considers its economic weight: this is one case where the EU seeks more Chinese presence. If it remains absent, it is inconceivable that China could effectively veto European border protection and humanitarian intervention in the Mediterranean Sea. It may be that China's negative attitude towards EU action in the Mediterannean is actually a form of retaliation for the European position on international law in the South China Sea. That retaliation is achieved at the expense of the refugees.

Adding to this, China's and Russia's United Nations Security Council vetoes on Syria let the situation drift from popular uprising to a civil war, and then a regional war. Apart from a very narrow interest in its own nationals enrolled under the banner of the Islamic State group, the Middle East's largest trading partner has not contributed to bringing an end to the crisis. Unlike Russia, it stands in the front row for the potential reconstruction of Syria, likely as a fulfilment of original BRI designs, and as another business opportunity. It should be a European goal to ensure that China's humanitarian contribution to the region matches these opportunities.

Nuclear and ballistic proliferation

The second circle is that of nuclear and ballistic proliferation. Here, Europe must pursue greater engagement and dialogue with China, because the two sides' interests have lately become more compatible. China retains a more indifferent attitude to nuclear and ballistic proliferation in general. But it would not sacrifice its own relationship with the US and EU to stand by Iran, for example. Although it dampened the sanctions process against Iran, it did not stand in the way of the negotiation that ended with the JCPOA in July 2015.

More urgent is the matter of North Korea. Since 1991 China's policy has been short term: calling for and hosting talks, criticising North Korea's nuclear drive but also impeding the force of UN sanctions and shielding the regime in Pyongyang. This ambidextrousness has reached its limits now that North Korea is on the cusp of owning a viable nuclear deterrent combination. China's delaying tactics are straining now under the pressure of urgency and the risks of a conflict. China remains, with South Korea, the party most affected by any such worsening of the situation, including the risk of any form of nuclear accident. It now has a direct interest, and not only a transactional one, in putting North Korea's programmes back in the bottle. It may be distant geographically, but Europe can assist by hosting talks between relevant parties to help prevent any escalation through misunderstandings in a volatile situation. The EU should also direct a strengthened message towards China and others, in order to persuade it to more diligently implement United Nations Security Council resolutions.

Between both cases – North Korea and Iran – there is a linkage. The de facto acceptance of North Korea as a nuclear state creates a precedent which could yet inspire an Iranian move towards nuclear weapons acquisition in the future.

The African space

The third circle is that of Africa and key adjoining maritime spaces, like the Gulf of Aden and the Gulf of Guinea. China's participation in peacekeeping operations in Mali and South Sudan occurred under the aegis of the UN, and any coordination by China with the EU and member states does not exceed what is strictly necessary for the mission. Beyond peacekeeping under the UN, and in spite of China's frequent mention of the African Union as a regional organisation to be reckoned with, China hardly gets involved in crisis management. The trend may be shifting, however. South Sudan, and in Asia Afghanistan and Myanmar (the Rohingya crisis), are cases where China, for the first time, is engaging in attempts at mediation. This could represent a first step to a larger role in the future.

On the other hand, China is busy developing bilateral military relationships with African states – including training and human exchanges. It received the chief of staff of the Zimbabwean army on the eve of the overthrow of its long-time friend Robert Mugabe.[4] China's military footprint took a giant leap forward when it set up its base in Djibouti. There are questions about

4 MacDonald Dzirutwe, Joe Brock, and Ed Cropley, "Special Report: 'Treacherous shenanigans' - The inside story of Mugabe's downfall", *Reuters*, 26 November 2017, available at https://www.reuters.com/article/us-zimbabwe-politics-mugabe-specialrepor/special-report-treacherous-shenanigans-the-inside-story-of-mugabes-downfall-idUSKBN1DQ0AG.

the leasing and subsequent development of a major container port in Djijelli, Algeria.

Dialogues between Europe and China on African development have taken place at the EU level, and with some member states. They have not resulted so far in joint aid projects (with the exception of bilateral projects with the UK). What is needed is a more coordinated approach by EU member states towards African countries, and an emphasis on the African Union to help to bolster its role. Africans looking at China's arrival are generally split between welcoming a competitive element that opens up their own possibilities and worrying about potential imperial behaviour by the new arrival. There is no question that China is here to stay in Africa, while many of the EU member states do not have Africa on their list of priorities, in spite of the high-profile migration challenge. While no door should be closed to China on non-military cooperation, it is clear that Europe must upgrade its profile to face the competition, and learn to work more collectively with African states.

China's official aid is also active in the public health and agriculture sectors in Africa, where it may in fact be more effective than Western NGOs. There is scope for Europe to engage with the Chinese authorities, and encourage Chinese NGOs to operate in the humanitarian and development fields, from which they are currently absent. Only a few Chinese youth associations have risked projects in Africa.

China's sphere of influence and international law

The fourth circle is that of European policy in Asia. Besides North Korea and proliferation, two issues take priority: the need for a regional balance where the role of the United States is likely to recede, even if only slowly, and international law as a guide for arbitration and negotiation.

Any European ambiguity on promoting international law will ricochet back in the European neighbourhood itself. Different perceptions of interests, usually of an economic nature, among member states should not lead to political opportunism on these issues. In the case of the South China Sea, the international award in July 2016 should be understood for what it is: a clear delimitation of the features that can be used for sovereignty claims, not an adjudication of these features themselves. There is still space for negotiations, bilateral or multilateral, on sovereignty itself, but the award made clear that moves on the ground by China cannot claim any legal grounds for its position. The reality is that China does not want to use the very real negotiating space that it still has, because defining its claims and their basis would unavoidably place an outward limit on those claims, including with other parties. That is precisely why a multilateral settlement is preferable, but such a process would increase the chances of unifying other claimants – and why should China favour that? In the present anxiety among Asean states, who fear being left alone to cope with the issues and themselves hesitate to take a lead, the EU, as a rules-based organisation, must show steadfastness.

The complement to this attitude is security cooperation with Asian states. This should not exclude cases of cooperation with China, but the main focus should be on other Asian parties that do not challenge international law. Several Asia-Pacific navies will soon become world-class, and may in fact cooperate with European forces in other regions. Engaging them and establishing security links is the answer both to China's rise and to doubts about the course of action taken in the future by the US. In no case will the EU be the driving force of event, but it must make sure it is part of the solution – both in terms of balance and in terms of the willingness to talk with various parties.

The polar circle

The fifth circle is about the poles. There are signs of potential Chinese claims on the Antarctic – which was divided among 12 nations in 1959. This arrangement is for usage rather than a claim of sovereignty, and it has worked so far for the common good. By contrast, the Arctic is partly unclaimed. It is increasingly open to maritime crossing, and only partly supervised by northern nations through their exclusive economic zones and continental shelves. Chinese strategists tend to treat the Arctic region today as yet another new Silk Road. This is also a backdoor to Europe, and there would be clear strategic implications for European countries if China extended its naval reach into these waters and under them. Europe would do well to pay attention to the current emergence of a 5+1 northern Europe format, which could mirror the 16+1 precedent. Northern economies feel less concerned by the EU's difficulties in trade and investment with China, and there is a risk of separate deals with China.

The digital continent

Finally, the sixth circle is digital. Europeans are squeezed between the industry dominance of the 'GAFA', America's largest IT firms, and China's aggressive state bid for online control.[5] Here, as in other areas surveyed above, China applies a different standard to its own domestic market, which is strictly monitored and controlled. Its international outreach will increasingly rival that of American companies, and with both intrusive actions and a push for Chinese standards: 5G, UnionPay, and the Beidou Navigation System are good cases in point.

Of course, dialogue on norms and on cybersecurity is needed. But these issues suggest that the EU, built on the liberal premise that the market can drive economic development by itself, must now recognise that technological development also requires a public hand with industrial policies. That is even more true when one is having to play catch-up. In short, this sixth circle is not so much a challenge to foreign policy and EU-China relations as a call for the EU to create the conditions for innovation and channelled technological development.

End the asymmetry

Over the last decade, China has made itself a part of the European landscape in ways often not open to Europeans (or others) in China itself. Without the plan of action above, and success in persuading China to end the asymmetry in the relationship, the next China-EU Power Audit in another decade's time might show European voters turning against China. This would be the least desirable outcome, and even a regime with different political principles should understand this. A strategic partnership devoid of strategic content is no longer a viable situation; it is time for Europeans to fill it.

5 'GAFA' is the acronym for Google, Amazon, Facebook, and Apple.

AUSTRIA

Politics and diplomacy

- China was not a primary focus for the Austrian government at the time of the first ECFR China Power Audit in 2009. But it now views China as a partner in scientific and technology cooperation and agriculture. A number of ministerial visits in 2016 and 2017 focused on agriculture.
- Austria is positive on the Belt and Road Initiative (BRI), seeing Vienna as a terminal point in the undertaking. As of today, there are no concrete developments related to the BRI in Austria.
- Austria received the Dalai Lama in May 2012 for meetings with the then-chancellor, Werner Faymann, and members of his government.
- Austria neither endorsed the joint statement of March 2016 at the UN Human Rights Council nor signed the February 2017 letter condemning China's crackdown on human rights.
- There is little mention of the European Union in bilateral discussions. Vienna believes that it should deal with the South China Sea issue within the framework of the EU.

Economy and trade

- A majority of Austrian members of the European Parliament voted against granting China market economy status. But reciprocity is not mentioned in bilateral discussions.
- Austria has the least open foreign investment regime in the EU. With the Austrian Foreign Trade Act (AFTA), Austria has the EU's widest law on screening foreign investment. However, it has never been used with regard to China, and there is no public debate on Chinese investment.
- Chinese investment in the country is growing, from a small base. While only seven Chinese companies set up business in Austria in 2015, 12 were established in 2016. Among these, Austria is a hub for ZTE's central European operations. In 2009, Xi'An Aircraft Industry Company, a branch of the Aviation Industry Corporation of China, acquired Future Advanced Composite Components, a producer of aircraft components and systems with ties to Russia's military aircraft industry. This was permitted under AFTA. Greenfield investments are limited (but include water management and paper production).
- There is science and technology cooperation in the areas of agriculture, environment, renewable energy resources, and biotechnology. The Chinese Academy of Social Sciences and Shanghai University have signed an agreement on six joint projects with Austria in the field of nanotechnology (2015-18) and launched a joint call for a project in advanced materials (2016-19).
- Austria is a member of the Asian Infrastructure Investment Bank and holds 0.7 percent of votes in the institution.

Influence

- Austria is a centre for Chinese media and public communication in the region. The Sino-Austria Center for Media & Communication Management was founded in 2004 by the Universities of Fudan and Salzburg.
- Cooperative institutions include two Confucius Institutes, the Helmut Sohnen Foundation, the Austrian-Chinese association, 30 NGOs dedicated to Chinese issues in Austria, and the Eurasia-Pacific Uninet network.

BELGIUM

Politics and diplomacy

- On the occasion of the 2017 EU-China Summit, Li Keqiang made an official visit to Belgium. The Belgian prime minister, Charles Michel, visited China twice in 2016. The 2009 Power Audit classified Belgium as a "European follower", but it is now more proactive. It has raised a number of concerns that range from investment to cybersecurity.
- Belgium considers some decisions taken by the European Council to be too weak. For instance, it believes that the EU declaration of July 2016 on the South China Sea should have cited China and the legally binding nature of the arbitration at The Hague.
- The Dalai Lama and Taiwan remain at the core of disputes between Belgium and China. China has already threatened to cut a number of investments if these issues are not resolved to its satisfaction. The president of the Flemish parliament has been disinvited by China because he welcomed the Dalai Lama in September 2016. Belgium did not endorse the joint statement condemning China's crackdown on human rights at the UN Human Rights Council in March 2016, but it signed the February 2017 letter condemning the torture of Chinese human rights lawyers.
- The above-mentioned issues do not preclude other talks. While bilateral discussion on the Democratic Republic of the Congo seems to have slowed down, counter-terrorism is now a new topic in bilateral discussions – with reservations, from Belgium's perspective.

Economy and trade

- Reciprocity is always mentioned in bilateral discussions.
- Belgium supports the European Union's decision on market economy status. Belgium does not have a foreign direct investment scrutiny procedure; investment is a regional competence. Hence, the government is currently holding discussions with the three regions on investment screening, and welcomes an EU position. One proposed Chinese investment in Flemish electricity and gas network operator Eandis was cancelled by the company due to significant opposition in Flanders.
- China is among the top ten sources of foreign direct investment in Belgium, including in the banking sector (Chinese company Anbang Insurance Group has acquired Negelmackers), logistics and transport (the ports of Antwerp and Zeebrugge), and the car industry (Volvo). There is an upward trend in real estate and financial investment.
- For the past seven years, a China-Belgium Technology Center, the first start-up and business incubator in Europe backed by the Chinese, has been planned, but never completed, at the University of Louvain.

Influence

- There are a number of Chinese organisations in Belgium, such as a Chinese cultural centre, the Chinese-Antwerp Circle of Friends, and six Confucius Institutes. There is a strong Chinese lobbying presence in Brussels, accompanied by a large Chinese media presence. It is, of course, very hard to separate this presence from EU institutions.
- Twelve thousand Chinese citizens were recorded as living in Belgium in 2016.

BULGARIA

Politics and diplomacy

- Since 2009, Bulgaria has benefited from a rising interest by China. The relationship is grounded in ideological and market-driven opportunities.
- The last presidential visit took place in 2014. Since 2015, high-level contacts have taken place within the 16+1 framework. Sofia will host the 16+1 summit in 2018.
- Sofia would like to use the leverage of the 16+1 to further cooperate with Georgia on Black Sea ports. Unlike in 2009, the western Balkans are no longer discussed in bilateral discussions.
- Bulgaria has an extradition treaty with China.
- Bulgaria neither endorsed the joint statement of March 2016 at the UN Human Rights Council, nor signed the February 2017 letter condemning China's crackdown on human rights.
- Bulgaria has not taken any side on the South China Sea dispute and supports the EU position.

Economy and trade

- Market economy status and investment screening fall under the EU's competence. Bulgaria does not have a foreign direct investment scrutiny mechanism.
- The Bulgarian government believes there is no need to express reciprocity in bilateral discussions.
- Since 2009, Chinese investments have shifted from telecoms to agriculture, renewable energy (solar parks in particular), and real estate.
- Oversell by politicians and media hype around China's investment intentions has often led to disappointment: there is a mismatch between the interest attributed to Chinese companies and the actual investment coming through.
- Russia may work with the Industrial and Commercial Bank of China and China National Nuclear Corporation to build the nuclear power station planned at Belene. In 2012, Sofia cancelled the deal with Russia under pressure from the United States and the EU. With the purchase of Pirelli in Italy this would be the second instance of major Chinese-Russian cooperation diluting EU sanctions on Russia.
- Agricultural matters have formed an important workstream in Bulgaria within the 16+1 framework.
- Bulgaria is willing to increase its cooperation with China on "a bigger Chinese presence and participation in industry and high-technology", according to President Rumen Radev (January 2017). Aerospace, climate change, big data, and sectors such as machine-building, the auto industry, electronics, information and communications technology, agriculture, and food processing, appear to be a carbon copy of China's usual priorities.

Influence

- Alongside two Confucius Institutes and three business associations, the One Belt One Road Foundation supports Bulgaria's position on the Belt and Road Initiative. It was established in April 2017 by Zahari Zahariev, a high-ranking member of the Bulgarian Socialist Party who is also close to Russophile organisations.
- China Today publishes a supplement in Zemya, a Bulgarian newspaper linked to the Bulgarian Socialist Party and which is also close to Russia.
- The overall perception of China in Bulgaria has improved.

CROATIA

Politics and diplomacy

- China has pressed the most recent member of the European Union to become a supporter of Chinese interests in the region. As one Chinese ambassador to Zagreb said, “As the newest member state, the EU should support firmer cooperation between China and Croatia instead of providing instructions to Croatia”. Nonetheless, at the 16+1 summit in Riga in 2016 the Croatian president said that Croatia-China cooperation is “fixed and determined by the EU’s cooperation with China”.
- Since 2016, Croatian prime ministers have had four encounters with high-level Chinese officials. Among these, Chinese premier Li Keqiang met with his counterpart at the 16+1 summit in Riga. Xi Jinping and the Croatian president agreed on the complementarity between the BRI and the 2016 Three Seas Initiative of the Croatian president (linking the Adriatic, Baltic, and Black seas). China has encouraged Croatia to become the leader on SMEs in the framework of the 16+1.
- Croatia neither endorsed the joint statement of March 2016 at the UN Human Rights Council, nor signed the February 2017 letter condemning China’s crackdown on human rights.
- The maritime dispute between Slovenia and Croatia has led Zagreb to adopt a very cautious position on the South China Sea dispute.

Economy and trade

- Croatia supports the EU’s position on the market economy status issue and will align itself with the EU on investment screening. Croatia does not have a foreign direct investment scrutiny procedure.
- Chinese investments are said to hold a “mythical” appeal, although less than 1 percent of foreign direct investment in the country is Chinese. Chinese investments and job creation crop up as a topic in local and national election campaigns.
- Two major investments are on the horizon: China expressed an interest in acquiring Rijeka’s port €1.2 billion container terminal. Croatia is competing with Hungary for an Alibaba distribution centre.
- In April 2017, Zhongya real estate was the first Chinese company to register in Croatia, with a capital investment of €350m. Zhongya’s first project, facilitated by the Chinese Southeast European Business Association (CSEBA), will be a €30m investment in construction projects related to tourism in Krapinske Toplice.

Influence

- CSEBA set up its headquarters in Zagreb in 2014. It aims to increase business links between China and no fewer than 23 countries (from Slovenia to Tajikistan), and to “change the perception and the antagonism towards China”, according to Mario Rendulic, president of CSEBA .
- The University of Zagreb plays host to one Confucius Institute.

CYPRUS

Politics and diplomacy

- Since 2009, Cyprus's policy on China has changed little, remaining friendly and generally supportive of China's political line.
- High-level exchanges remain limited although they include the participation of the Cypriot minister of education at the May 2017 BRI summit and the seventh Cyprus-China Joint Economic Committee in 2016.
- Cyprus neither endorsed the joint statement of March 2016 at the UN Human Rights Council, nor signed the February 2017 letter condemning China's crackdown on human rights.

Economy and trade

- On market economy status for China, Cyprus advocates trade criteria rather than a political assessment made by the European Union. Cyprus has no stated position on investment screening. It does not have a foreign direct investment scrutiny procedure.
- Cyprus does not mention reciprocity in its bilateral discussions with China.
- China is Cyprus's third largest trading partner, with a trade deficit of €531m.
- A year after the launch of a program to sell citizenship, Chinese property investment surged by 351 percent. It contributed to the revival of the construction sector, which had collapsed after the 2013 economic crisis.

Influence

- The "golden citizenship" scheme introduced in 2014 remains the fastest way of obtaining a Cypriot passport, at just three months. The cost of naturalisation comes to some €2m. In 2015, 122 passports were granted to Chinese nationals (against 1,138 to Russians). As one observer has noted, "In Cyprus, they come, they see and then they say that 'for that money, I will invest in Spain and have a Schengen visa.'"
- Cyprus plays host to one Confucius Institute.

CZECH REPUBLIC

Politics and diplomacy

- Until 2014, the Czech Republic was very critical of China's policy on human rights. Following the Dalai Lama's visit to Prague in 2009, no political dialogues took place for five years. The election of a government led by the Social Democrat Party changed the Czech approach and 2014 marked the blossoming of the relationship. President Milos Zeman is ideologically and economically close to China. He attended the first Belt and Road Initiative (BRI) summit.
- In 2009 and 2011, the Dalai Lama visited the Czech Republic for high-level meetings. In 2014, the Czech minister of foreign affairs went to China and apologised for the Dalai Lama's visit. In 2016, the Dalai Lama visited Prague for "private" meetings with Czech officials, which triggered a reaction from the Chinese ministry of foreign affairs. Leading government and parliamentary figures apologised, sparking accusations of bending to China's will. The Czech Republic did not endorse the joint statement condemning China's crackdown on human rights at the UN Human Rights Council in March 2016, but signed the February 2017 letter condemning the torture of Chinese human rights lawyers.
- The European Union is always mentioned in joint statements.

Economy and trade

- The Czech Republic supports the EU's refusal to grant China market economy status and welcomes the initiative on new trade defence instruments. At the BRI Forum in 2017, the Czech participants were among the Europeans who did not endorse a Chinese-inspired statement on commercial policy.
- The Czech Republic opposed the France-Germany-Italy initiative on investment screening. It welcomes a debate within the EU and is likely to remain passive (or slightly opposed) until a majority of member states have come to a decision. The Czech Republic will then align itself with that majority. The country does not have an investment scrutiny procedure.
- 2016 and 2017 saw a sharp increase in Chinese investments in the automotive, electronics, business services, telecommunications, food, and real estate sectors. China Energy Company (CEFC) has already invested significantly in the country, with investments in J&T Finance Group, the acquisition of Zdas (a manufacturing group), alongside the acquisition of a football club, a brewery, and real estate. Chinese companies are discussing investments in Aircraft Industries, the Czech aircraft producer, and the Skoda public transport subsidiary of Volkswagen. Seven models of Skoda are being produced in China.
- The Czech Republic is pushing China to eliminate non-tariff barriers, especially those preventing the import of private aircrafts.
- Leo Express, the Czech passenger train company, has signed a first purchase of three trains with CRRC Zhuzhou. This is the first Chinese rolling stock to be used within the EU.

Influence

- The Czech Republic is perhaps the most visibly penetrated EU state. The 2015 annual report of the Czech Security Information Service (BIS) stated that the Chinese intelligence service is the most active in the country and actively "works on extending and maintaining Chinese influence in Czech politics and economy". The 2016 BIS report stated that the number of Chinese "spies" had stagnated, while the number of operatives on mission had increased. The 2017 report noted a rise in the intensity and aggression of influence operations, as well as increased spying.
- Zeman and the Social Democrats admire China and maintain strong links with the Chinese Communist Party. CEFC established its European headquarters in Prague in 2015. Since then, the company has invested $1 billion in media, football, industrial and metallurgic companies. The president of the Czech CEFC headquarters is former defence minister Jaroslav Tvrdik.
- A number of organisations, including the New Silk Road Institute, have a presence in Prague. The Czech Republic hosts one Confucius Institute.

DENMARK

Politics and diplomacy

- In 2008, China and Denmark signed a comprehensive strategic partnership. Since the troubled period between 2009 and 2012, which followed the meeting of the then prime minister, Anders Fogh Rasmussen, with the Dalai Lama, China and Denmark have normalised relationsA. The bilateral relationship is now flourishing, with a number of high-level visits taking place: prime minister Lars Lokke Rasmussen, the minister of foreign affairs, and the minister of trade visited China between February and May 2017. They signed a cooperation agreement on maritime matters and the "China Denmark Joint Work Programme, 2017-2020", including agreements on food and drugs trade and regulations.
- Denmark believes that China is the only country that can tackle North Korea.
- Denmark is using trade and investment dialogue to talk about human and democratic rights. One can say that China has turned this against Denmark. In 2012, Hu Jintao's visit to Copenhagen saw large protests on Tibet, which led to the cancellation of a €20m deal on Danish investment in China. While Copenhagen signed the the joint statement condemning China's crackdown on human rights at the UN Human Rights Council in March 2016, it did not sign the February 2017 letter condemning the torture of Chinese human rights lawyers, arguing that the issue was already being dealt with through bilateral channels.

Economy and trade

- Denmark's position with regard to China is summarised as follows: "China is a trading partner, not an ally".
- In Copenhagen, it is argued that all the countries should abide by the same rules on market economy status. Denmark is opposed to EU-level investment screening as it may curb opportunities and complicate investments in the country. National regulations have been established to review the geopolitical implications of new investments that could affect Danish interests. Denmark has a foreign direct investment scrutiny procedure that is triggered on an automatic basis.
- Huawei's investment in the Danish telecommunications company TDC was a source of concern but nonetheless went ahead. Chinese investment in such areas has aroused concern about cyber security, especially regarding industrial and intellectual property espionage. Decision-makers argue that Denmark should develop cyber defence capabilities.
- Denmark is a member of the Asian Infrastructure Investment Bank and has 0.6 percent of votes in the institution.

Influence

- Danish political parties are split on China. The Social Democratic Party and the Green Party are concerned about human rights and trade, arguing that Denmark should balance its approach to China and engage in more critical dialogue. The far-right Danish People's Party has called for an outspoken approach on China's influence in the country, and was very engaged in the 2012 "Tibet case".
- Denmark hosts three Confucius Institutes and eight Confucius classrooms.

ESTONIA

Politics and diplomacy

- The bilateral relationship between China and Estonia has deepened since 2009, partly due to the 16+1 format. Estonian officials believe that their country is important to China. This explains the pressure from China to intensify high-level dialogues since 2013. In 2016, high-level exchanges took place almost once a month, indicating this priority. The change of government in November 2016 and the Estonian presidency during the second semester of 2017 reshuffled national priorities, after which China was removed from the agenda of the Estonian presidency.
- 2011 was marked by a freeze in relations between the two countries after Estonia received a visit from the Dalai Lama. The countries' relationship only recovered after informal apologies from Estonia's ministry of foreign affairs.
- Estonia believes in the need to further discuss cooperation between China and the Nordic countries on the Belt and Road Initiative (BRI). In this framework, deals between China and Russia are a source of concern in Estonia. On the BRI, Estonia has been very cautious and refused to join the central and eastern Europe investment fund, arguing that EU money may be cheaper.
- Estonia did not endorse the joint statement condemning China's crackdown on human rights at the UN Human Rights Council in March 2016, but signed the February 2017 letter condemning the torture of Chinese human rights lawyers.

Economy and trade

- Estonia was favourable towards granting market economy status to China. In a similar vein, there has been no discussion of new trade defence instruments, and Estonia has not requested reciprocity. Minimal Chinese investment is assessed very positively and there is no discussion about security risks and investment screening. Estonia does not have a foreign direct investment scrutiny procedure.
- Chinese projects in Estonia are perceived as "success stories" both in third countries and in Estonia itself. Eesti Energia sold 45 percent of shares to Yudean Group (SOE) in an oil shale power plant in Jordan. They will jointly build the power plant in Jordan – a $2.1 billion investment financed by Bank of China and the Industrial and Commercial Bank of China. The country's 2014-2017 action plan, "Made in Estonia 3.0", cites China as an important target market for wood and food products. Didichuxing, the Chinese rival to Uber, is now expanding all over Europe via Taxify, a small Estonian company it took over in 2017.

Influence

- In 2007, Estonia suffered three waves of cyber attacks targeting 85,000 computers belonging to private and public entities across 178 countries. China was one of the identified hackers – although there remains a focus on Russia's involvement. The government's general cyber deterrence policy is the blueprint for cyber defence against China. The NATO Cooperative Cyber Defence Center of Excellence is located in Tallinn. Estonia has also hosted large military exercises.
- Estonia plays host to a Confucius Institute, the China Scholarship council, and the Asian Centre at Tartu University. The parliamentary foreign affairs committee and the Estonian-Chinese parliamentary group are targeted by China for influence.
- Tallinn University plays host to one Confucius Institute.

FINLAND

Politics and diplomacy

- High-level contacts have intensified over recent years. Xi Jinping visited Finland for two days in April 2017 (only the second visit to Finland by a Chinese president since 1995). His political statement recognising the 100th anniversary of Finland's political independence clearly earned China some goodwill.
- A recent joint declaration on the "future-oriented new-type of cooperative partnership" positioned itself as complementary to the European Union-China comprehensive strategic partnership. It indicates strong support for the EU-China 2020 Strategic Agenda for Cooperation, the negotiations on the investment treaty, and the launch of a feasibility study on a free trade agreement "when the conditions are right".
- Finland signed the the joint statement condemning China's crackdown on human rights at the UN Human Rights Council in March 2016, but did not sign the February 2017 letter condemning the torture of Chinese human rights lawyers. This may signal a turn to a more "pragmatic" approach.

Economy and trade

- Finland believes that market economy status should be discussed within the EU framework. Helsinki conceives of the role of the EU as being the provider of a framework for managing the bilateral relationship. In the Finnish economy in 2016, China ranked fourth in imports (representing €4.05 billion in value), after Germany, Sweden and Russia; and sixth in exports (representing €2.68 billion in value, or 5.2 percent of all exports). The bilateral relationship concerns itself mostly with trade.
- Chinese investments in Finland were limited up until 2016. That year saw the sale of Supercell, a Finnish mobile game company owned by Japan's SoftBank, to Tencent. At €8.5 billion, it tops any other deal involving China in northern Europe. Chinese companies are now interested in technology companies (information and communications, advanced, and health technology). They have invested in bio-refineries, and in high-tech textile production. Both governments have agreed to cooperate on clean technology, information and communications, climate change, and bio-economics.
- In September 2017, Kai Mykkänen, Finland's minister for foreign trade and development, came out strongly against the European Commission's proposal for investment screening, citing the risk of a "trade war" and describing it as "useless". With 350 Finnish companies in China versus 50 Chinese firms in Finland, Finland runs risks in a trade or investment conflict.
- Finland is a member of the Asian Infrastructure Investment Bank and holds 0.5 percent of votes in the institution.

Influence

- China owns Rondo Classic, a Finnish radio station that also broadcasts programmes on China.
- Chinese cyber threats are high on the Finnish security and defence agenda.
- The University of Helsinki plays host to a Confucius Institute.

FRANCE

Politics and diplomacy

- Up until February 2016, when France appointed a new minister of foreign affairs, the country's stance in China-France declarations leaned towards accommodation. The dialogue did not always mention Europe, and human rights issues had all but disappeared from the agenda of bilateral talks.
- France's strategy has entailed strong defence ties with most other Asia-Pacific nations. It is the only country in Europe conducting freedom of navigation exercises in the South China Sea, and has emphasised this at several Shangri-La defence summits.
- France is also Europe's largest security provider to Asian countries excluding China, with contracts to India and Australia that imply defence cooperation over several decades.
- An extradition treaty signed in 2007 came into force in 2015. In addition, Chinese undercover security officers came to France in February 2017 and successfully returned a corruption suspect to China. China has raised the issue of security for Chinese tourists in France, particularly after the terror attacks in the country in November 2015.
- Since February 2016, human rights have again been a staple of the bilateral agenda; in December, the Franco-German Human Rights Prize was given to the wife of imprisoned Chinese human rights lawyer Li Heping. On other human rights issues, France did not endorse the joint statement condemning China's crackdown on human rights at the UN Human Rights Council in March 2016, but signed the February 2017 letter condemning the torture of Chinese human rights lawyers. The death of Nobel laureate Liu Xiaobo in July 2017 and his wife's disappearance elicited an official response from France that was weaker than those from Germany and the United Kingdom.

Economy and trade

- Together with Germany, France has encouraged the European Commission to put new trade defence instruments in place. Reciprocity is at the core of bilateral discussions given that 50 percent of France's global trade deficit is due to China. France is a member of the Asian Infrastructure Investment Bank and commands a 3.3 percent of votes in the institution.
- In 2017 France, Germany, and Italy sent two joint letters and a non-paper to the EU advocating a European investment screening mechanism. Since 2014, France has had one of the most comprehensive legal frameworks for reviewing foreign investment, but seldom invokes it.
- Chinese investment in France focuses on real estate, agriculture, tourism, and minority stakes under the declaratory threshold of 10 percent. China's largest investment remains a 30 percent stake in the French gas company Engie made in 2011. Concern has grown in France about the purchase of a 49.9 percent stake in Toulouse airport by Chinese investors.
- In 2017, the acquisition by Fincantieri of STX, France's successful cruiseliner shipyard, led to friction between France and Italy, with France raising questions about Italian ties to Chinese military shipbuilding and the potential loss of activity in Europe. The deal went through after an agreement was reached on naval cooperation. After engaging in cooperation with the Chinese nuclear industry over the UK Hinkley Point project, in 2017 France refused a Chinese proposal to buy Areva, the nuclear reactor and nuclear waste retreatment company. China Eastern has purchased 10 percent of Air France.

Influence

- China exerts influence in France by lobbying high level decision-makers, and by reaching out to elected local officials and French regions (through six formal agreements with Chinese provinces).
- NGOs such as the Fondation Prospective et Innovation, the France-China Foundation and the Franco-Chinese Foundation for Science and Application are increasing Chinese-French elite contacts. France plays host to no fewer than 17 Confucius Institutes.
- France is the most popular European destination for Chinese tourists, and hosts the largest population of wider Chinese origin in Europe, of between 600,000 and 1m people.

GERMANY

Politics and diplomacy

- China and Germany have held regular intergovernmental consultations since 2011, establishing no fewer than 60 dialogues. At the same time, the German government raises criticism about human rights issues more frequently than in the past. See, for example, President Joachim Gauck's speech in Shanghai in March 2016, and Angela Merkel's high-profile involvement around the cases of Liu Xiaobo and Liu Xia in July 2017. Germany signed the the joint statement condemning China's crackdown on human rights at the UN Human Rights Council in March 2016, and the February 2017 letter condemning the torture of Chinese human rights lawyers.
- The Dalai Lama has visited German federal or Länder officials five times since 2009.
- The arrival of Donald Trump and potential protectionist policies in the United States led Germany to make declarations concerning interdepence with China.
- Germany consistently includes references to the European Union in its bilateral dialogues with China, including on Belt and Road Initiative issues. Germany has been critical of China's engagement with central and eastern Europe in the 16+1 format. In September 2017, foreign minister Sigmar Gabriel emphasised the need for a common European strategy on China. Germany's statements on China's actions in the South China Sea go beyond those of many other member states.

Economy and trade

- Germany promotes new trade defence instruments, and has expressed its support for investment screening. This is a sea change for the country's economy and trade officials, who are traditionally committed to free trade.
- With bilateral trade of €169.9 billion in 2016, China is Germany's biggest trading partner. China is now Germany's largest car export market. In 2016 the Chinese government unexpectedly issued a decision requiring an immediate shift to electric engines. An informal deal delaying the rule by one year for German firms was proposed by China, and turned down out of consideration for the EU. The size of China's market means that the future of Germany's car industry is now decided partly in China.
- 2016 was a strong year for Chinese investment in Germany: 31 percent of all Chinese inward investment in the EU (approximately €11 billion out of €35 billion). This mostly took the form of acquisitions – 58 German companies, many of them high-tech. Such investment has evolved from targeting engineering, environmental technology, and automobile companies in 2014 to health and pharmaceuticals in 2015, and information and communications technology, mechanical engineering, and consumer goods in 2016. Among the largest investments, in 2016 Chinese electrical goods company Midea acquired German robots manufacturer KUKA for €4.4 billion, sparking national and international controversy. In 2017, the HNA conglomerate took a stake in Deutsche Bank, and is also bidding for a stake in Allianz.
- In 2017, Germany's economy ministry put in place a new investment screening procedure. SPD members of the coalition championed them, with discreet backing from Merkel. Many CDU-CSU members, as well as companies or business associations, remain doubtful about restrictions on the free flow of capital. Five thousand German companies operate in China (compared with 900 Chinese companies in Germany).
- Germany is one of 18 EU members of the Asian Infastructure Investment Bank, with 4.5 percent of votes in the bank and a representative on its board.

Influence

- Cyber security features in the inter-governmental consultations and was mentioned in the statement of the 4th German-Chinese inter-governmental consultations in June 2016.
- Chinese influence in Germany is also visible through 19 Confucius Institutes, and friendship associations.
- China has a limited foothold in German media: only Handelsblatt takes a *China Daily* supplement. Deutsche Welle is blocked in China and was denied accreditation for the 2016 G20 summit.

GREECE

Politics and diplomacy

- Since the 2008 economic crisis, Greece has pivoted to China. This coincided with China's purchase's of Greek bonds, followed by COSCO's first investment in the port of Piraeus. Through this investment, Greece became part of the Belt and Road Initiative (BRI). Alexis Tsipras was among the few European leaders to attend the first BRI summit, in May 2017.
- Greece's position on the South China Sea dispute has been neutral, although the ruling on the issue at The Hague could create a precedent for the Turkey-Greece Aegean boundary dispute. Greece nonetheless resisted the European Council after the ruling, resulting in a weaker EU statement.
- In June 2017, Greece blocked a European Union statement on human rights in China at the United Nations. At the subsequenty European Council meeting, other leaders are said to have criticised Greece for "being in the pocket of China". Tsipras and foreign-affairs minister Nikos Kotzias have used the nuisance value of their veto power at the EU level to gain leverage inside the EU after the financial crisis.

Economy and trade

- Greece would have been in favour of granting China market economy status but fell in behind the EU's position. Only representatives of the Communist Party, Golden Dawn, and GUE-NGL, voted in favour in the European Parliament. Tsipras supported Portugal at the July 2017 European Council against the proposal for investment screening. Greece does not have a foreign direct investment scrutiny procedure.
- The largest Chinese investments in the country include COSCO's €368m acquisition of 67 percent of the Piraeus Port Authority (with a pledge of €350m in investment). Elsewhere, China State Grid acquired 24 percent of the Greek state grid, ADMIE, for €320m. Shenhua Group, the largest Chinese coal producer, signed a €3 billion contract with Copezoulos to provide clean energy, and China Machinery Engineering Corporation signed a €1 billion contract with the Greek Public Power Corporation for the construction of a lignite-fired power station.
- Difficulties involving Chinese companies and Greek public opinion stem from the government's ideological opposition to privatisation in general, not to China. This explains the protests of port workers against COSCO in 2009 and the very long negotiation under way for Hellenikon airport, where Fosun is said to head an €8 billion consortium involving a major tourist resort.
- In 2016, the Chinese and Greek prime ministers signed a memorandum of understanding on cooperation on energy, the environment, information and communications technology, and transport. ZTE signed a memorandum of understanding with Forthnet in June 2016 to upgrade Greek telecoms networks.

Influence

- As of June 2017, 701 "golden visas" costing €250,000 each had been granted to Chinese citizens.
- There is an institutional partnership between Athens press agency, Xinhua, and China Radio International, Greece.
- The former director of TAIPED, the state-owned asset development fund of Greece in charge of privatisations, Sterios Pitsiorias, became the new minister of economy and development in the Tsipras government. He is in charge of Sino-Hellenic cooperation.
- In 2016, 70 percent of the Greek population had a positive view of China.
- There is a Business Confucius Institute in Athens.

HUNGARY

Politics and diplomacy

- Hungary has past links to China – largely based on the model of Hungarian economic reforms under socialism. The bilateral relationship has become intensely political since the 2011 financial crisis and Viktor Orban's accession to the premiership. Liu Qibao, a member of the Politburo, visited Hungary in April 2017, while Orban attended the first Belt and Road Initiative (BRI) summit the following May, signing a comprehensive strategic partnership.
- Hungary was the first European country to sign a memorandum of understanding with China on the BRI, in 2015. This initiative complemented the Hungarian Eastern Opening policy, begun in 2011.
- Human rights have been absent from the bilateral agenda since 2011.
- Hungary prevented the European Union from signing as a bloc the February 2017 letter condemning the torture of Chinese human rights lawyers, and did not sign the joint statement of March 2016 at the UN Human Rights Council.
- Along with Greece, Hungary weakened the EU statement on the South China Sea ruling at The Hague.

Economy and trade

- Despite an official position of support for granting China market economy status, and opposing trade defence instruments and investment screening, in practice Hungary still votes for anti-dumping measures and is sometimes said to "follow Germany" (90 percent of its exports to China take place through multinational companies). After opposition from Orban on investment screening, which he held to be a restriction on CEE-China cooperation, the prime minister has adopted a wait-and-see attitude. Hungary does not have a foreign direct investment scrutiny procedure.
- The number and size of Chinese investments in the country is limited. Wanhua's acquisition of Borsodchem in 2011 for €1.2 billion remains an exception. Huawei is the second-biggest Chinese investor in Hungary, has located its largest EU production facility there, and is the network provider to 70 percent of the Hungarian population. BYD will soon open its second production line of electric buses in Europe (having opened one in France), to compete for EU public markets. Chinese investment in Hungarian real estate is substantial – in 2016, 1,213 out of the 3,163 acquisitions by foreigners were from Chinese citizens.
- The Belgrade-Budapest railway has been a source of tensions between the EU, Hungary, and China. The current EU rule infringement procedure assesses the financial viability of the project and its compliance with EU's public tender law.
- Hungary is a member of the Asian Infrastructure Investment Bank member and holds 0.3 percent of votes in the institution.

Influence

- Since April 2017, Budapest hosts the first Chinese think-tank registered in Europe, the China-CEE Institute. This organisation comes in addition to the Chinese Cultural Institute (2017), the Research Centre on One-Belt-One-Road (2016), and four Confucius Institutes.
- Hungary has Europe's largest scheme for residence permits, which officially costs €250,000 each. Given its political sensitivity, this scheme is currently on hold before the general election takes place in 2018.

IRELAND

Politics and diplomacy

- In 2010, China became a priority for the Irish government. Two years later, Ireland signed a strategic partnership with China. Since Xi Jinping's visit to Ireland in 2016, the bilateral relationship has grown stronger. The Irish government is favourable to China, as are Ireland's two main political parties. Media organisations and NGOs often criticise them for this.
- In March 2016, Ireland endorsed the joint statement condemning China's crackdown on human rights at the UN Human Rights Council. Following pressure on Ireland's ability to export beef to China, the Irish ministry of foreign affairs signed a letter in April 2016 reaffirming Ireland's positive relations with China. Beijing also expressed discontent with Irish NGO and media critics. In fact, civil society in Ireland remains critical of China on human rights (for example, Front Line Defenders, a Dublin-based NGO, gave an award to human rights lawyer Guo Feixiong in 2015). In February 2017, Ireland did not sign the letter on torture of Chinese human rights lawyers. The following month, it obtained access to China's beef market.
- On issues affecting the Uighurs, Ireland has stated that "security forces should practice restraint in exercising their competences to avoid providing fuel for further radicalisation and support the European Union's call on the Chinese authorities to address some of the deep-rooted causes of the frustration of the Uighurs, ensuring their right to practice their own culture, language and religion is respected."
- Ireland supports the EU's policy on China. The government is also a keen backer of reciprocity.

Economy and trade

- Even though Ireland is not opposed to granting China market economy status, it judged that 2016 was too early for a decision on the issue. Ireland is opposed to investment screening but will follow the EU's decision. Following the June 2017 European Council meeting, Ireland welcomed the European Commission's change of language on the issue. Currently, the country does not have an investment screening mechanism but it prohibits investment in the arms sector.
- Until 2016, the level of investment by China in Ireland was low. In 2016, Xi called for increased Chinese investment in the country, and it then grew to nearly $3 billion. This is mainly due to the $2.5 billion purchase in 2016 of Avolon aircraft leasing by China HNA. The energy sector also saw an increase thanks to the $400m invested by China General Nuclear Power in 14 Irish wind farms owned by Gaelectric.
- In December 2016, China awarded an investment quota worth €6.89 billion under the Renminbi Qualified Foreign Institutional Investor scheme, allowing Irish investors to use offshore renminbi in order to invest in China. The Irish Central Bank also received authorisation from Chinese authorities to accept applications from Irish-domiciled mutual funds to invest through the Shenzhen-Hong Kong Stock Connect Programme.

Influence

- Ireland has two preferential visa programmes. As of today, these programmes have received 313 applications from Chinese nationals. There has nonetheless been a decrease of 12.1 percent of the number of Chinese citizens living in Ireland.
- Ireland plays host to two Confucius Institutes and 12 Confucius Classrooms.

ITALY

Politics and diplomacy

- The number of recent high-level visits showcases the strengthening of bilateral relations. Former prime minister Matteo Renzi visited China twice (2014, 2016). On his first visit, he signed the China and Italy 2014-2016 Action Plan and 13 agreements on science, trade, and innovation. In February 2017, China welcomed the Italian president for the third time in the history of the countries' bilateral relations (1981, 2010, 2017). Paolo Gentiloni attended the first Belt and Road Initiative (BRI) summit, in May 2017. Government agreements with Italian regions also exist.
- The Italian government incorporated four ports into the BRI framework through the 'Five Ports' Initiative (Fiume, Venice, Trieste, and Ravenna) and aspires to become the end destination of the 'Maritime Silk Road'.
- Cooperation between Italy and China is evident in third countries – in Africa, Pakistan, and the western Balkans. For instance, Petrochina acquired 20 percent of ENI's shares in Mozambique's Block 4 offshore gas field for joint exploration in 2013.
- On the South China Sea, Italy keeps a low profile. It nonetheless supports an ASEAN-China Code of Conduct and is opposed to the nine-dash line.
- China and Italy are currently deepening their military and police cooperation, with an extradition treaty in place since 2015. In July 2017, the two countries' navies conducted a joint exercise in the Tyrrhenian Sea. In May 2016 and May 2017, Chinese and Italian police officers organised joint patrols in both countries.
- Italy maintains a very low profile on human rights. Italy neither endorsed the joint statement of March 2016 at the UN Human Rights Council, nor signed the February 2017 letter condemning China's crackdown on human rights. However, in 2009, the Dalai Lama met with the president of the Italian lower house, Gianfranco Fini. The Dalai Lama visited Tuscany in June 2014, travelled to Milan and received an honorary citizenship of the city in October 2016, and returned to Pisa in September 2017.

Economy and trade

- Italy supports the reform of trade defence instruments and believes that a bilateral investment treaty and an agreement on the protection of geographical indications should be obtained before granting market economy status to China. Italian opposition parties the Five Star Movement and the Northern League launched a NoMesChina campaign in response to the EU-China consultation. Along with France and Germany, Italy signed three joint calls for investment screening in 2017. Investments in security and technology have triggered a debate at the parliamentary level, fuelled by opposition parties. A scrutiny procedure for all foreign direct investment exists, but on a case-by-case basis.
- Italy has the highest level of Chinese investment in Europe, covering all key sectors. Energy and telecoms are new areas of interest for Chinese investors. Italian rules for disclosure, more demanding than in other EU member states, reveal numerous acquisitions of small stakes across the board in Italy's large firms. China National Chemical Corporation acquired Pirelli in 2015, buying out Russian shareholders. Huawei acquired mobile operator Wind and cooperates with Telecom Italia on innovation.
- Italy has bargained on innovation and technology transfer to China to attract Chinese investment. The transfers appear to follow much of China's technology and innovation targets.
- A member of the Asian Infastructure Investment Bank, Italy has 2.6 percent of votes in the institution.

Influence

- Chinese cyber attacks have targeted the Italian foreign ministry.
- Across the EU, Italian public opinion is the least well disposed towards China. In 2015, a Pew Research survey found that 61 percent of the population were unfavourable to China, down from 70 percent in 2014.
- Twelve Confucius Institutes and 39 Confucius Classrooms are located in Italy.
- Italy officially hosts 325,000 residents of Chinese origin, but this is probably an underestimate.

LATVIA

Politics and diplomacy

- In 2016, the fifth meeting of the 16+1 in Riga gave momentum to what had been a slow-moving bilateral relationship.
- The Chinese Communist Party has a cooperation agreement with the Latvian social democratic party Harmony. Sergey Potapkin, secretary of the parliamentary foreign affairs committee, is a strong supporter of China. On the margins of the 16+1 meeting in 2016, vice-minister Liu Haixing announced that both parliaments would strengthen cooperation.
- Latvia has been supportive of European Union policies regarding China.
- Latvia now avoids raising any human rights concerns with China. In September 2013, the Dalai Lama had met with the Latvian minister of justice, Janis Bordans, and the former president of Latvia, Vaira Vīķe-Freiberga. The Dalai Lama returned to Riga in September 2017.
- Latvia neither endorsed the joint statement of March 2016 at the UN Human Rights Council, nor signed the February 2017 letter condemning China's crackdown on human rights.

Economy and trade

- Latvia supports the EU on market economy status for China and EU anti-dumping measures against China. Latvia also supports the EU's initiative on investment screening. The country has a foreign direct investment scrutiny procedure, which was reinforced in 2017, largely out of concern about Russian investment in Latvia.
- Latvia is interested in attracting Chinese cargo and transport routes, in order to circumvent Russia. Riga also aims to increase its exports to China and to attract Chinese tourists.
- In 2016, Chinese foreign direct investment amounted €76.7m. Real estate purchases by Chinese citizens constituted the bulk of this. China is interested in investing in large infrastructure and transport projects such as the new Rail Baltic railway, but not under EU rules for public tenders.
- Following 2016 amendments to the Law on National Security, the government now needs to approve any purchase or acquisition of shares by a foreign company in areas that are crucial for national security (electronics, mass media, natural gas, electricity, and heating).
- Latvia and China have a cooperation agreement in science and technology. In November 2016, the University of Latvia, in cooperation with North China Institute of Science and Technology, established a new academic cooperation centre.

Influence

- Latvia has a "golden visa" programme allowing any foreigner purchasing real estate or investing in the country to receive a temporary but renewable five-year residence permit. Given the impact this programme had on real estate prices, the government amended the 2010 law and increased the threshold from €142,287 to €250,000 for real estate purchases. This led to a decrease in the number of Chinese individuals investing in real estate (from 417 bids in 2013 to 130 in 2016). Chinese citizens are now investing in Latvian companies, which has proved a more difficult undertaking, as these companies have to pay at least €20,000 in tax per year.
- Latvia plays host to one Confucius Institute.

LITHUANIA

Politics and diplomacy

- In 2016, among the five high-level visits between China and Lithuania, two took place within a multilateral framework (Boao Forum and the 16+1 meeting in Riga). The main topic of discussion was bilateral economic relations. As of today, Lithuania has not developed a comprehensive strategy on China, mainly because of China's relations with Russia.
- Lithuania supports the European Union's policy on China and aligns itself with Brussels on the South China Sea. It avoids political issues in bilateral talks with China. Lithuania has signed an extradition treaty with China.
- In September 2013, the Dalai Lama met with the former president of Lithuania, Vytautas Landsbergis, and with the sitting president, Dalia Grybauskaitė. China's reaction was to impede certifications for Lithuanian agricultural products, an important national export.
- Lithuania neither endorsed the joint statement of March 2016 at the UN Human Rights Council, nor signed the February 2017 letter condemning China's crackdown on human rights.
- The Lithuanian government and state-owned companies have expressed a strong interest in the Belt and Road Initiative. Potential investments include Klaipeda deep-water port, Kaunas Heat and Power Plant, and logistical hubs, as well as cooperation with Lithuanian railways. Lithuania is slated to become a transit country for a Chinese industrial zone located in Belarus.

Economy and trade

- Lithuania supports a common European position on market economy status. Chinese competition concerns some manufacturers, including producers of solar batteries. Lithuania has a foreign direct investment scrutiny procedure.
- For Lithuania, gaining market access in China is a priority. There has been progress on this front, with China providing certification for Lithuanian dairy companies in 2016 and issuing certificates for beef in 2017.
- In 2016, China was only the 29th-largest investor in the country, crowded out by offshore centres and even Taiwan. The largest Chinese investment is in the Huawei customer Solution Innovation and Integration Experience Centre, which is a joint scientific laboratory with Vilnius University and Lithuania's largest mobile operator, Omnitel. In 2016, the China Merchants Group chose Lithuania as its base for further expansion in central and eastern Europe. The reluctance of the state to transfer control of Klaipeda Port to its Chinese buyer froze the deal.
- Lithuania's concerns over investment are partly due to China's relations with Russia, particularly fears that China could resell some investments to Russia. Vilnius is also concerned about China's control of valuable assets (Lithuanian Railways and Klaipeda port). Lithuania will likely follow Germany's position on investment screening.
- In April 2017, the Bank of Lithuania granted an Electronic Money Institution licence to IBS Lithuania, a subsidiary of China International Financial Services Settlement Holdings based in the Bermudas and Hong Kong. IBS Lithuania plans to capture the market for money transfers between Europe and China.

Influence

- Influence remains limited. A Confucius Institute was established in 2010 in partnership with Vilnius University.
- Demonstrations on Tibet usually occur during official Chinese visits.

LUXEMBOURG

Politics and diplomacy

- Since January 2016, five Luxembourg government representatives have visited China. In the same period, Councillor Yang Jiechi and National Development and Reform Commission chief Ma Kai visited the country.
- Luxembourg is supportive of the European Union's positions on China and has sought to push Syria up the EU-China agenda.
- Jean Asselborn, minister for foreign affairs, has raised human rights issues, and during his visit to China in 2016 he called for a moratorium on the death penalty.
- Luxembourg neither endorsed the joint statement of March 2016 at the UN Human Rights Council, nor signed the February 2017 letter condemning China's crackdown on human rights.

Economy and trade

- Luxembourg was one of the countries least opposed to granting China market economy status. Luxembourg has the most open foreign investment regime in the EU. It does not have a foreign direct investment scrutiny mechanism.
- Luxembourg is the centre of Chinese financial activities in Europe and holds the largest pool of renminbi in the eurozone. After the United States, Luxembourg is the world's second biggest market for mutual funds and an easy point of entry into the EU and the euro market. Renminbi-listed bonds have a growing position in the Luxembourg Stock Exchange. Finally, Luxembourg benefits for the renminbi qualified foreign institutional investor scheme with a quota of RMB50 billion to meet the demands for Chinese assets.
- Eleven Chinese banks have opened their European branches in Luxembourg. The Chinese fintech company Ping Pong chose Luxembourg to open its European branch, facilitating e-commerce for Chinese and European sellers. But China is only represented in four Luxembourg funds (compared to 68 for Japan), to a value of €273m.
- A joint venture between HNA and Cargolux was signed in 2016. The plan is to develop a Chinese carrier by the end of 2018.
- Luxmebourg is a member of the Asian Infrastructure Investment Bank and holds 0.3 percent of votes in the institution.

Influence

- In order to attract Chinese financial activities in Europe, the Grand Duchy has lifted administrative and governmental barriers for Chinese companies seeking to gain access to decision-makers.
- Luxembourg has one Confucius Institute.

MALTA

Politics and diplomacy

- As Reno Calleja, president of the Malta-China Frendship association, wrote, "The Chinese may date you many times but they do not marry easily. Malta was an exception."
- In April and May 2017, Malta received two Chinese delegations led respectively by Gao Yan, China's vice-minister for commerce, and Zhang Baowen, vice-chairman of the standing committee of the National People's Congress.
- Even though Malta supports the EU policies and statements on China, the two joint statements released in the aftermath of the two visits did not mention the EU.
- Historically, the Maltese Labour Party is committed to enhancing the links between China and Malta. When it gained power in 2013, the Labour government rekindled bilateral relations by securing a cooperation plan (2014) and new investment in Malta from Chinese state-owned enterprise. The wife of the Maltese minister for energy, Sai Mizzi (a Chinese national), served as active promoter of Chinese investment in the country until February 2017.
- Malta neither endorsed the joint statement of March 2016 at the UN Human Rights Council, nor signed the February 2017 letter condemning China's crackdown on human rights.

Economy and trade

- The economy minister stated that Malta supports the EU on the reinforcement of trade defence instruments. However, without a national steel industry and with a boom in the construction sector, Malta has benefited from the drop in the price of steel. The Maltese minister of finance noted that there is "no significant distortion" to be found in China's exports. There is currently no legal framework for investment screening. Given Malta's taxation policy, it is very reluctant to establish a European investment screening. Malta does not have an foreign direct investment scrutiny procedure.
- The trade deficit and reciprocity are absent from the public discourse.
- Among the 13 Maltese companies with Chinese shareholders, eight are controlled by Chinese entities. Among the key investments, the government of Malta sold 33 percent of national company Enemalta to Shanghai Electric Power for €320m and a 90 percent stake in BSWC power plant for €200m. Despite the profitability of the operation, it triggered a public debate on the long-term implications of Chinese ownership of Malta's energy infrastructure. This deal is also shadowed by bribery accusations from the Panama Papers targeting the energy minister and the chief of staff to the prime minister. In the construction sector, China Communications Construction Company has conducted a feasibility study for the construction of a bridge and is now awaiting the government's decision. Compliance with EU tender laws has never been part of the Maltese public debate.
- China is also engaged in science and technology projects. Huawei signed a memorandum of understanding with the government to research and develop a 5G network on the island.
- Malta is a member of the Asian Infrastructure Investment Bank and holds 0.2 percent of votes in the institution.

Influence

- Chinese media are present in Malta. In 2014, the Maltese national broadcaster signed an agreement on a mutual exchange of news and a current affairs programme with Chinese broadcaster CCTV.
- With the Individual Investor Programme and the Residency and Visa Programme, Malta has two "golden visa" schemes. Under the latter, foreigners can qualify for Maltese citizenship by investing €500,000 in Maltese property or government bonds, or by making a contribution to Identity Malta. Zhongtian Liu, China's "aluminium billionaire", is a beneficiary of this programme. These two programmes are controversial in Malta, because of kickbacks for the sale of citizenship. The Nationalist Party has committed to reviewing these programmes.
- The University of Malta hosts one Confucius Institute.

THE NETHERLANDS

Politics and diplomacy

- The last high-level visits between China and the Netherlands took place in March and October 2015 respectively, when the Dutch king and the prime minister, Mark Rutte, visited China. Since January 2016, the Dutch ministers of trade and development, infrastructure and environment, and economic affairs have visited China. The province of South Holland also organised a trade mission in 2016.
- The Netherlands is not a large player in the Belt and Road Initiative, and no policy proposals have come from China on this for the Netherlands. Beijing has approached the government for support at the EU level.
- In May 2014, the Dalai Lama met with then foreign minister Frans Timmermans.
- The Netherlands signed the the joint statement condemning China's crackdown on human rights at the UN Human Rights Council in March 2016, but it did not sign the February 2017 letter condemning the torture of Chinese human rights lawyers.
- The Netherlands support the European Union's overall policy on China.

Economy and trade

- In the Netherlands, 91 percent of Chinese investments are takeovers and 9 percent are greenfield. Most of the takeovers focus on the information and communications technology and agricultural technology sectors. There is concern about hostile takeovers and high-tech acquisitions. More than 500 Chinese companies are based in the Netherlands, among which 315 are empty shells. Sixty percent of these companies focus on wholesale and retail trade.
- The Netherlands does not support strong trade defence instruments. However, the public debate on this issue is limited. Some investment screening tools have been introduced in the financial and telecoms sectors. It did not support investment screening at the EU Council in June 2017, but is now said to have a wait-and-see attitude.
- The BRI and China's approach to a number of European ports and airports may affect Schiphol airport and Rotterdam port – that is to say, the Netherlands' role as a distribution centre.
- The Netherlands is a member of the Asian Infrastructure Investment Bank and holds 1.2 percent of votes in the institution.

Influence

- The Netherlands plays host to two Confucius Institutes and 13 Confucius Classrooms.
- The Dutch intelligence community is concerned about economic espionage and military intelligence by Russia and China.

POLAND

Politics and diplomacy

- The financial crisis, China's rise, and the Polish presidency of the European Union pushed China to the top of Poland's political agenda. In 2008, Donald Tusk, then prime minister, visited China. After three years of intensive political dialogue, relations were upgraded to a "strategic partnership" when Polish president Bronisław Komorowski visited China.
- China's policy on Poland has shifted towards a proactive approach since the electoral victory of the Law and Justice party (PiS) in 2015. In April 2016, Poland's foreign minister, Witold Waszczykowski, visited China. Two months later, Xi Jinping paid an official visit to Poland (the first such visit since 2004). Both presidents signed a declaration on upgrading bilateral relations to a "comprehensive strategic partnership". In May 2017, the prime minister, Beata Szydlo, visited China and attended the Belt and Road Initiative (BRI)Forum. In July 2017, Zhang Dejiang, Chairman of the Standing Committee of the National People's Congress (NPC) visited Poland and signed a memorandum of understanding on cooperation between China's NPC and the Polish Sejm.
- Poland has adopted a positive attitude towards the BRI to attract Chinese investment and speed up Poland's reindustrialisation. Warsaw's objective is to become a Silk Road hub for central and eastern Europe. After the fourth 16+1 summit in Suzhou in November 2015, Poland and China signed an "MoU on the BRI" that included concrete proposals such as those for the removal of trade barriers. The Polish foreign minister visited in 2016 to sign the Belt and Road Action Plan and, in June 2016, Warsaw hosted the international Silk Road Forum.
- Despite the increased level of activity, PiS maintains a clear anti-communist stance, led particularly by Jaroslaw Kaczynski, and also by the minister of defence. Kaczynski is said to have termed China "the second biggest threat to Poland after Russia" in September 2016. In practice, Poland is very cautious about investment from China.
- In 2013, the Dalai Lama met with Tusk.
- Poland neither endorsed the joint statement of March 2016 at the UN Human Rights Council, nor signed the February 2017 letter condemning China's crackdown on human rights.
- Poland supports EU policy towards China, although it does not speak up in intra-EU deliberations. A joint Poland-China statement in June 2016 mentioned the EU twice.

Economy and trade

- Warsaw discreetly supports the EU's refusal to grant market economy status to China. Reciprocity is mentioned in bilateral discussions. Polish officials have not come out publicly on investment screening but a national foreign direct investment scrutiny procedure is in place and is triggered automatically.
- Chinese companies have invested in electronics, information technology, banking, and transport and distribution. Among the largest investments, the acquisition of the civilian part of Huta Stalowa Wola steelworks in early 2012 by LiuGong is the first full privatisation in Poland involving Chinese capital.
- Poland also encourages Chinese companies to take part in public procurement and make greenfield and brownfield investments. In 2016, Sinohydro Corporation won the Polish Power Grid Company's (PSE) tender for the construction of the high power Chełm-Lublin transmission line, and China's Pinggao Group won three tenders from PSE to build electric transmission lines. Poland halted the takeover of a surveillance company with public contracts in 2017.
- A member of the Asian Infrastructure Investment Bank, Poland holds 1 percent of votes in the institution.

Influence

- Polish perceptions of China have changed from a very negative to a rather positive image, due mainly to generational change.
- Poland hosts five Confucius Institutes.
- Several Polish and Chinese cities have cooperation agreements. Local business opportunities can pre-empt national level reservations.

PORTUGAL

Politics and diplomacy

- Relations between China and Portgual intensified following president Hu Jintao's visit in 2010 and the 2011 financial crisis. In September 2016, Li Keqiang visited the Azores. With the United States reducing its military presence and financing on the archipelago, increasing Chinese interest there is a source of concern for Washington. During Li's visit, Lisbon welcomed Chinese engagement on non-military activity.
- Portugal's policy on China changed with the signing of a "comprehensive strategic partnership" in 2005. In 2015, Portugal cited "specific national interests" in becoming a founding member of the Asian Infrastructure Investment Bank. Attracting Chinese investments is now a priority for Portugal.
- On the agenda for China and Portugal are Macau and Portuguese-speaking countries. For example, at the 2017 Belt and Road Initiative (BRI) Forum, Portugal's economy minister positioned Portugal as the gateway to Europe and Africa. Macau remains an important trade platform between China, Portugal, and eight Lusophone countries.
- In the past, Portugal has accepted the European Union's policy on China. It did not lobby for China on market economy status in the run-up to the decision by the EU in 2016, contrary to official Chinese expectations. Bilateral relations remain the priority. Human rights are never mentioned at the bilateral level, although the Portuguese media frequently raises the human rights situation in Macau. Portugal has an extradition treaty with China.
- Portugal neither endorsed the joint statement of March 2016 at the UN Human Rights Council, nor signed the February 2017 letter condemning China's crackdown on human rights.

Economy and trade

- Portugal supports anti-dumping measures and the reform of trade defence instruments. But Lisbon is not opposed to granting market economy status to China. In March 2017, the minister of foreign affairs, Santos Silva, emphasised the need for reciprocity.
- In November 2017, Portuguese President Marcelo Rebelo de Sousa spoke of a "third stage in relations (...) qualitatively richer than the previous (stages) (...) the current stage is open to cooperation in science and technology".
- Portugal has the second most open foreign investment regime in the EU. It uses its foreign direct investment scrutiny procedure on a case-by-case basis. During 2011-2015, Portugal, was Europe's sixth most important destination for Chinese investment. Chinese companies purchased 45 percent of the €9.2 billion Portugal raised through state sell-offs under its bailout agreement. Since 2014, Chinese companies have invested beyond the privatisation plan.
- Since Chinese interest in acquiring the port of Lisbon faltered because of the role of trade union, the Portuguese government has been promoting Sines, "the closest European port to Panama", as a potential BRI gateway to Europe.
- At the June 2017 European Council meeting, Antonio Costa strongly opposed an EU investment screening mechanism. During the prime minister's visit to China in October 2017, Xi Jinping expressed his "hope that Portugal could exert greater influence on China-EU economic and trade relations". There is no public debate in Portugal on this issue.
- A member of the Asian Infrastructure Investment Bank, Portugal holds 0.3 percent of votes in the bank.

Influence

- Between January and July 2016, 207 Portuguese companies were targeted by cyber espionage operations. China is alleged to be a suspect in these attacks.
- Portuguese public opinion is now willing to endorse a pragmatic approach to China. Chinese tourism has increased sevenfold in the last six years.
- The first bilingual Chinese-Portuguese newspaper, *Diarios de Todos*, was established in 2014.
- The Chinese Red Cross donated $100,000 to Portugal after the summer 2017 forest fires there.
- Portugal plays host to four Confucius Institutes.

ROMANIA

Politics and diplomacy

- Since January 2016, nine high-level meetings have taken place involving ministers and state secretaries from both countries. Romania has shown great interest in the Belt and Road Initiative. The majority of joint statements between 2016 and 2017 highlighted the importance of deepening cooperation within the 16+1 framework.
- The election of social democrat Victor Ponta in 2012 marked a shift to a pro-China government. In 2014, he clearly signalled Romania's interest in using Chinese investment to support the development of the Romanian nuclear energy sector, and coal, hydroelectricity, and thermal power generation assets. Chinese investment has been used as a positive factor in electoral campaigns. Right-wing parties remain critical of China.
- Romania has issued several statements on human rights, and raised concerns about the detention of European Union citizens by Chinese authorities. It neither endorsed the joint statement of March 2016 at the UN Human Rights Council, nor signed the February 2017 letter condemning China's crackdown on human rights.
- Romania has signed an extradition treaty with China.
- Romania is generally supportive of mainstream EU policies towards China.

Economy and trade

- Romania supports the EU's stance on market economy status. Its representatives have called for reciprocity on a number of occasions. Bucharest will align itself with the EU on investment screening. Romania has a foreign direct investment scrutiny procedure in place.
- At the same time, Romania welcomes or even actively seeks out Chinese investment. Under Ponta's government, a number of deals were signed. In 2016, 4,250 companies were registered with Chinese capital investment or majority ownership.
- A few large Chinese companies are present in the areas of energy, technology and car manufacturing. Other large projects – a Bucharest ring road, a major bridge, several power stations – have mostly not happened so far. In June 2016, five investment projects were confirmed, worth €118m, mainly in the automotive, energy, and real estate sectors. The two largest investments are the prospective construction of a solar power station, for €33m, and acquisition of an automotive parts factory, for €45m.
- The new prime minister, Mihai Tudose, also a social democrat, received Liu Yunshan, China's fifth most important leader, in July 2017, and again took up the issue of an $8.5 billion contract for two nuclear reactors at Cernovoda.

Influence

- The Romanian Academy and the Chinese Academy of Social Sciences have signed a collaboration protocol. Nonetheless, many media and opposition politicians are critical of ties to China.
- Romania plays host to four Confucius Institutes and 10 Confucius Classrooms.

SLOVAKIA

Politics and diplomacy

- In 2016, Slovakia and China had a series of meetings at ministerial level, not counting the Riga 16+1 summit bilateral exchange between the Slovakian and Chinese prime ministers.
- Slovakia supports the Belt and Road Initiative.
- Slovakia has had a China Strategy in place since 2017.
- In October 2016, the Dalai Lama met the president of Slovakia, Andrej Kiska, creating tensions later alleviated by the ministry of foreign affairs.
- Slovakia neither endorsed the joint statement of March 2016 at the UN Human Rights Council, nor signed the February 2017 letter condemning China's crackdown on human rights.

Economy and trade

- Slovakia supports the European Union's refusal to grant China market economy status and on the need for reciprocity. With regard to investment screening, Slovakia is supportive of the EU's policy, and there is an ongoing dialogue on security and technology issues. Slovakia is in the early stage of creating a foreign direct investment scrutiny procedure.
- China's investment in the energy sector and its bid for an airport form part of the public debate. The Chinese National Nuclear Corporation failed to acquire Slovakian power plants, but took over Energetic Industrial Holding from the Italian Enel. US Steel, among the country's biggest employers, is selling its subsidiary to He Gang Steel on the steel production unit. The move, giving China a share of EU production on top of its own exports, is under review by the European Commission. Germany's ZF sold its plastics and rubber subsidiaries to South China Rail in 2014, including ZF Boge Elastmetall Slovakia. Cases of greenfield investments through joint ventures and capital inputs into Slovakian projects remain limited.
- Slovakia's trade deficit with China almost doubled between 2012 and 2016.

Influence

- Slovaks' perceptions of China have become more positive over recent years.
- The local community of Chinese origin is fragmented and not unified.
- Slovakia plays host to two Confucius Institutes.

SLOVENIA

Politics and diplomacy

- In 2016, Slovenia and China held a series of meetings at the ministerial level, not counting the 16+1 Riga summit exchange at the prime minister level. Slovenia has expressed an interest in the Belt and Road Initiative.
- Slovenia supports the European Union's overall approach to China, but does not always welcome certain initiatives by other member states that would restrict trade – for instance, on solar panels and steel.
- On South China Sea issues, China claimed that Slovenia had sided with it – likely because of Slovenia's own Piran Bay dispute with Croatia. Slovenia has denied this and sticks by the European Council resolution.
- In 2010, the Dalai Lama met with Boštjan Žekš and Janez Janša, respectively 'minister for Slovenians abroad' and former prime minister.
- Slovenia neither endorsed the joint statement of March 2016 at the UN Human Rights Council, nor signed the February 2017 letter condemning China's crackdown on human rights.

Economy and trade

- Slovenia supports the search for a new anti-dumping methodology started by the EU in January 2017, without enthusiasm for anti-dumping and import protection. The country supports the EU on investment screening. Slovenia does not have a foreign direct investment scrutiny procedure.
- Slovenia is the third most open foreign investment regime in the EU. Ljubljana supports investments in high-tech industries. Chinese strategic investments in Slovenia include a major deal with Pipistrel (ultra-light planes, gliders and hybrid motors) to produce in China, and Zhejiang Asia-Pacific Mechanical & Electronic's acquisition of 20 percent of Elaphe, a Slovenian start-up specialising in electric motors-in-wheel sets. China CEE Investment Corporation also acquired 84.1 percent of Slovenia's public lighting, energy production, and signalling company. Shenzhen Tianjinyuan Fund Management invested €13m in SHS Aviation, which is now the operator of Maribor airport. SHS is nominally under Dutch and Canadian owenership, based in the Netherlands. The largest acquisition remains Zhejiang Jingke's €1 billion purchase of Outfit7, a Slovenian start-up specialising in mobile apps, games, and web shorts, which moved to Cyprus soon after it was bought out.
- China had expressed interest in investing in the Adria airline and Brnik airport (both since sold to German companies), in the port of Koper, and in the railway system – where it promised €10 billion of investment on the condition that it employ Chinese workers. This was "a social bomb Slovenia would not be able to withstand", and the government has sought its own funds for the extension of the port of Koper. It is the closest port to Hungary, and in April 2017 the Hungarian government also offered to invest in a connecting rail line. China has taken control of Maribor airport through a Dutch-registered company.
- In 2016, Chinese minister for science and technology Wan Gang met with Slovenian minister of economic development and technology Zdravko Počivalšek in Beijing to discuss potential cooperation in new energy and materials, IT, biopharmaceuticals, food processing, and the auto industry.

Influence

- Slovenia-China friendship groups are in place and span the political spectrum. The current minister of agriculture, forestry, and food, and leader of the Social Democrats, Dejan Zidan, is very engaged in the relationship.
- Forty-seven Chinese delegations are known to have visited the region of Maribor over the last couple of years.
- Some Slovenian media have reported cyber attacks of Chinese origin.
- The University of Ljubljana plays host to a Confucius Institute.

SPAIN

Politics and diplomacy

- Until 2011, Spain positioned itself as China's best friend in Europe, advocating for Chinese interests such as lifting the arms embargo. The economic crisis changed China's attitude, which became more assertive. Spain changed its position due to a growing trade deficit and the lack of level playing field. Spain recorded a number of ministerial visits in 2016. The prime minister, Mariano Rajoy, was among the European leaders attending the Belt and Road Initiative (BRI) forum in May 2017 in China.
- Spain sees the BRI as an economic opportunity, but is concerned about China's export of its overcapacity, ghost projects and long-term competition with Spanish transport and infrastructure industries (in Spain and central Asia). Spain plays only a limited role as a go-between for China and Latin America.
- Spanish justice has been outspoken in the past on human rights at the national and multilateral level. In November 2013, a Spanish court ordered a magistrate to issue international arrest warrants for Jiang Zemin, Li Peng, and three other Chinese officials for alleged genocide in Tibet. Beijing froze relations with Spain, and 17 days later Rajoy passed a reform in Congress to limit the use of universal jurisdiction (in place since 2006 on a case involving Tibet). The warrant was dismissed four months later. Two of the largest Spanish investments in China, Abengoa and Ferroatlantica, suffered from retaliation through local governments.
- Spain neither endorsed the joint statement of March 2016 at the UN Human Rights Council, nor signed the February 2017 letter condemning China's crackdown on human rights.
- Spain has signed an extradition treaty with China.

Economy and trade

- Madrid supports the reinforcement of European Union trade defence instruments and the EU investment screening initiative. Spain has a foreign direct investment scrutiny procedure.
- Even though Spain has been successful in exporting frozen pork, copper, automotive equipment, pharmacology, and clothing to China, the level of the trade deficit has pushed Spain to demand more reciprocity.
- There was an increase of 120 percent of Chinese investment in Spain in the period 2015-16. In 2017 there was a slowdown due to regulatory issues in real estate, China's ICBC bank's implication in money laundering, and frictions between Wanda group and the municipality of Madrid over the renovation of an historic building.
- The airline HNA and Gingko Tree (gas network) are the largest Chinese investors in Spain. In 2016, the Aviation Industry Corporation of China acquired 95 percent of Aritex, which is the supplier of assembly lines for Mercedes, Volkswagen, for the A350XWB and, to a certain extent, for the A320 and A400M – the military cargo plane which cannot be sold directly to China because of the arms embargo.
- Chinese companies are slowly increasing their control of Spanish ports. Hutchison Port Holdings invested €315m in 2012 in the port of Barcelona and intends to invest €150m in a terminal extension. Cosco Shipping Ports has taken control of Noatum, acquiring 51 percent of its capital for €203m, which will provide control of the container terminal of the port of Valencia. Ningbo-Zoushan port company has recently shown interest in building and operating the third container terminal at the port of Algeciras, called Phase B.
- In 2012, the government turned down the acquisition by China State Grid of a 20 percent stake in REE.
- China is thought to be the main non-EU holder of Spanish public bonds.

Influence

- The "golden visa" scheme was introduced in 2013. And, by 2016, 714 Chinese citizens had benefited from this. There are 200,000 residents of Chinese origin in the country, mostly from Zhejiang.
- China targets Spain with cyber attacks.
- Spain plays host to eight Confucius Institutes.

SWEDEN

Politics and diplomacy

- Sweden's coalition government is more or less united when it comes to China – the opposition Moderates are generally more critical. Sweden supports the European Union policy on China and is very active on human rights.
- Sweden endorsed the joint statement condemning China's crackdown on human rights at the UN Human Rights Council in March 2016, and signed the February 2017 letter condemning the torture of Chinese human rights lawyers. The Swedish ministry of foreign affairs' first annual report on human rights, published in 2017, cites the situation of human rights in China with details. The Chinese ministry of foreign affairs reacted strongly to it.
- Sweden supports the ruling at The Hague on the South China Sea. It usually aligns with the United States on North Korea although it recently emphasised the need for a political solution.

Economy and trade

- Sweden supports the EU on market economy status issues. The level of Chinese investment in Sweden remains low. The acquisition of Volvo Cars by Zhejiang Geely Holding Group in 2010 triggered a public debate. Chinese companies are interested in investing in Sweden (especially in high-speed trains) and Swedish companies are open to working with Chinese partners. A project by China's Fanerdun company to create a huge logistics centre for the Baltic and northern Europe has failed to materialise.
- Sweden is opposed to an investment screening mechanism at the EU level and does not have a foreign direct investment scrutiny procedure. Security risks related to investments and technology transfers are the subject of public debate in Sweden. Intellectual property and transparency are at the core of today's national debate on investments.
- Sweden decided at the last minute to become a founding member of the Asian Infrastructure Investment Bank. It holds 0.8 percent of votes in the institution.

Influence

- The Swedish Security Service (SAPO) considers China to be a cyber threat. In 2009, SAPO arrested a man linked to the Chinese embassy in Stockholm for a cyber attack whose aim was to map the Uighur group in exile.
- Sweden plays host to one Confucius Institute.

UNITED KINGDOM

Politics and diplomacy

- From 2010, the Conservative-Liberal Democrat coalition government actively sought out Chinese investments. After an initial "strategic pause" to review the implications of the bilateral relationship, initiated by Theresa May in 2016, the British government is eager once more to engage with China.
- These meetings have been an opportunity for a number of policy proposals, such as those on: easing visa rules; a bilateral television co-production treaty; joint research in combating anti-microbial resistance; and cooperation on the rule of law with a new programme of funding including judicial reform, anti-corruption, and intellectual property. Two UK-China Security dialogues have also taken place.
- The Chinese have labelled the following as Belt and Road Initiative projects: the Hinkley Point nuclear power station, the UK-China Infrastructure Academy, and the "Golden Era: Sino-UK Maritime Trade and Investment Forum".
- Foreign secretary Boris Johnson and former defence minister Michael Fallon initially took strong stands on the South China Sea. Plans to send warships on freedom of navigation operations have not materialised, with the UK instead sending helicopters on French ships. In October 2017, Fallon said the Royal Navy "had no plans to sail through disputed islands".
- The UK opposed European Union policy on trade in 2016 (on the issues of anti-dumping and market economy status). It is supportive of investment screening on national security grounds.
- In 2012, the Dalai Lama visited the UK twice to meet David Cameron and Nick Clegg, then prime minister and deputy prime minister respectively, as well as speaker John Bercow.
- The UK signed signed the joint statement condemning China's crackdown on human rights at the UN Human Rights Council in March 2016, and the February 2017 letter condemning the torture of Chinese human rights lawers.

Economy and trade

- The UK supported the recognition of China as a market economy. May has called for a balanced approach on dumping, arguing that the lesser duty rule has significantly reduced the volume of Chinese steel dumping. Nonetheless, while this was an issue at their first meeting, Chinese overproduction disappeared from the agenda of the bilateral meeting between May and Xi Jinping at the G20. In the light of Brexit and the UK's eagerness to win investment, the issue of a European screening investment mechanism is receiving little attention. The UK has a foreign direct investment scrutiny procedure in place.
- Chinese investment in the UK focuses heavily on real estate, which amounted to 44 percent of the value of the deals between 2012 and 2016. Notably, BP signed an agreement worth £6.5 billion to sell Liquid Natural Gas to Huadin over 20 years. In a joint venture with EDF, China General Nuclear Power Corporation is taking a 33.5 percent stake in Hinkley Point power station for £6 billion. Other big investments include the BYD joint-venture with Alexander Dennis for 200 electric buses and Carnival Plc's agreement with China State Ship Building Company for £2.6 billion.
- The UK is a member of the Asian Infrastructure Investment Bank and holds 3 percent of the votes.

Influence

- There are significant city-to-city relationships. Kunming and Liverpool signed a friendship agreement in 2016, while Birmingham City Council signed a £2 billion agreement with Chinese developers the same year. Nottingham's ambitions to become the UK's "most China-friendly city" led to the signing of a five-year agreement with Ningbo in 2016.
- There are 29 Confucius Institutes in the UK and 148 Confucius Classrooms, by far the highest number in Europe.

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About the authors

François Godement is director of the Asia and China programme and a senior policy fellow at the European Council on Foreign Relations. He is a non-resident senior associate of the Carnegie Endowment for International Peace in Washington, DC, and an outside consultant for the Policy Planning Staff of the French ministry of foreign affairs.

A long-time professor at France's National Institute of Oriental Languages and Civilisations and at Sciences Po, he created Asia Centre IFRI at the Paris-based Institut Français des Relations Internationales (1985-2005). In 2005 he founded Asia Centre as an independent centre for research on Asian issues as they intersect global debates. He is a graduate of the Ecole Normale Supérieure de la rue d'Ulm (Paris), where he majored in history, and he was a postgraduate student at Harvard University. In 1995 he co-founded the European committee of the Council for Security Cooperation in the Asia-Pacific (CSCAP), which he co-chaired until 2008. He has also been a member of the advisory board for the Europe China Academic Network (ECAN).

He is editor of *China Analysis*, a quarterly analytical survey of Chinese news and debate published by ECFR. His recent publications include "Expanded ambitions, shrinking achievements: How China sees the global order" (2017), "China's market economy status and the European interest" (2016), and *Contemporary China: between Mao and Market* (Rowman & Littlefield, 2015).

He is a frequent contributor to media and academic debates on Asia and China.

Abigaël Vasselier is programme coordinator and policy fellow at the Asia and China programme at the European Council on Foreign Relations. She joined ECFR in 2013. Prior to that she graduated in international relations from Sciences Po Aix. She holds a master's degree in Asian politics from the School of Oriental and African Studies and holds a bachelor's degree in Chinese. She also studied at China Foreign Affairs University in Beijing. She has previously written for *China Analysis* and for *China Brief*.

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