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# China's Rise as a Goeconomic Influencer: Four European Case Studies

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Over the past decade, China has become central to the world economy. Building on its economic successes, it is becoming increasingly central in world politics. China is also now more ambitious, aiming to establish itself as a regional as well as a global power. In his October 2017 report to the Chinese Communist Party's 19th Congress, President Xi Jinping stated that by 2050, China will have "become a global leader in terms of composite national strength and international influence."<sup>1</sup> Despite a growing internal debate about the country's international positioning in the context of taking a confrontational tone with the United States, Xi believes he has the power to realize these ambitions. In June 2018, he chaired an important foreign policy meeting in Beijing, which reaffirmed the notions of a foreign policy with Chinese characteristics,<sup>2</sup> "diplomacy of socialism with Chinese characteristics,"<sup>3</sup> and redefined the concept of a "global community of common destiny."<sup>4</sup>

China's rise has been driven by economic development, starting with the launch almost exactly forty years ago of Deng Xiaoping's Open Door policy, which made China the economic powerhouse it is today—not just domestically, but in most parts of the world.

On the world stage, China has become a strong player in such institutions as the United Nations and the World Bank. It has developed strong bilateral relations with most countries around the world, with the exception of a handful of nations that still recognize Taiwan diplomatically. Globally, Chinese diplomats have been incredibly active, with the Ministry of Foreign Affairs (MFA) receiving a 15 percent budget increase in 2018 to help project Chinese diplomacy and soft power throughout the world. In the six years of President Xi's rule, the MFA budget has jumped to 60 billion renminbi (\$9.5 billion) from 30 billion renminbi in 2011.<sup>5</sup>

Although it has created quasi-institutional initiatives (such as the Asian Infrastructure Investment Bank, the New Development Bank, and the Silk Road Fund), China is willing to use the existing international order to continue assuming a bigger role on the multilateral stage.

China stepped up its overseas presence a decade ago by increasing its outbound investment. One of its key policies is to increase its footprint in developed economies, where it can acquire technologies, brands, and management skills, as well as access to major markets including the eurozone.

According to the China global investment tracker established by the American Enterprise Institute (AEI), since 2005, the total stock of overseas Chinese investments is approaching \$1.8 trillion worldwide.<sup>6</sup> China's overseas investment spree has included numerous developing economies, where Beijing initially looked for natural resources but is now expanding its business activities locally by constructing public buildings, railways, roads, energy projects, and other infrastructures. From Africa

to Latin America, it is hard to miss China's massive presence. For the past six years, many of these projects have been encompassed within the Belt and Road Initiative (BRI), a major China-led undertaking launched by Xi Jinping himself in 2013, initially aimed at building or rebuilding infrastructures across the Eurasian continent.

The plan stresses that the scope of the initiative will extend well beyond infrastructure construction. For example, it includes efforts to promote greater financial integration and foreign countries' use of the Chinese currency (the yuan, or renminbi), to create an Information Silk Road linking regional information and communications technology networks, and to lower barriers to cross-border trade and investment in the region, and other initiatives. Given the broader BRI definition brought forward in 2017,<sup>7</sup> some analysts have described China's ambition as "higher, more aggressive, and opportunistic due to the relative decline" of U.S. power.<sup>8</sup> Although not officially supported by most leading world economies (the G7), the BRI is gaining visibility and often has strong support from local authorities. Beijing thus aims to create a new, massive economic platform.

The BRI also aims to demonstrate China's will to engage with the world by building infrastructures and relaunching the world economy through its own initiatives. Some experts have noted that China's foreign aid is conditional—helping to rally diplomatic support and provide political benefits to Beijing as well as to some local elites in recipient countries.<sup>9</sup>

With China entering an important phase of its political development after the 19th Party Congress and heading toward the party's hundredth anniversary (in 2021)<sup>10</sup> and the People's Republic's hundredth anniversary (in 2049), it is worth pointing out that the country's economic rise is already challenging traditional geopolitics, despite a clear "divergence of views about how threatening this might be to traditional US dominance and agenda setting," as Harvard scholar Tony Saich has put it.<sup>11</sup>

## An Exporter of Influence

In many parts of the world, China's presence takes place through economic channels; Beijing has also become an exporter of political influence, however. Through some of its most vocal representatives, it increasingly presents itself as an alternative to the Western democratic model,<sup>12</sup> leading numerous Western analysts to call China a "revisionist" power. Perhaps "disruptive" might be a better way to qualify its approach,<sup>13</sup> as China's strategy "is actually one of portfolio diversification, not the replacement of institutions and systems," as described by Carnegie scholar

Evan A. Feigenbaum. Still, Beijing's narrative has had an impact on a number of governments around the world—a majority of them classifiable as “illiberal”: Egypt, Ethiopia, Pakistan, the Philippines, Sudan, and Turkey, for example. What is newer and perhaps unprecedented is China's growing influence in European countries, such as Cyprus, the Czech Republic, Greece, Hungary, Macedonia, Montenegro, Poland, Portugal, and Serbia, to name just a few. Cases of Chinese political interference in Australia and New Zealand were reported during 2017 and speak for themselves: from donations for Australia's largest political party during elections to using local Chinese communities to push certain agendas, increased ties between China-backed cultural/media activities and local political groups have been covered in various academic papers and news articles.<sup>14</sup> In Europe, reports have been more subdued and somewhat less substantiated, although it is hard to deny the reality of Chinese lobbying and search for influence,<sup>15</sup> notably in Brussels at the heart of EU institutions.<sup>16</sup>

For the past two years, the subject of China's geoeconomic assertiveness has attracted a lot of attention within the policy and scholarly communities. For example, there is a growing discussion in Europe about China's interest in sectors such as energy, transport, port and airport facilities, and especially information and digital technology, which would lead to stronger influence within European societies.<sup>17</sup> In Central Asia, Chinese aid and presence often are not viewed positively in the local discourse, with concerns including governance, the environment, labor issues, corruption, and mass migration from China. In practical terms, local governments play a key role in influencing the public's perception of China, but in the end there is still some misunderstanding at the local level about China's intentions vis-à-vis European countries.<sup>18</sup>

To narrow the scope of this issue, this paper focuses on four countries at the periphery of Europe—Portugal, Greece, the Czech Republic, and Serbia—addressing the question of China's growing geoeconomic influence and perceptions of that influence in these four countries. Some key questions include the following: Does China's economic weight, whether in trade or investment, lead to some political impact on the receiving countries? Is China's governance model translating into major changes in foreign societies? Do local political elites care about pleasing or offending China? Does Beijing's political weight affect some countries' foreign policy decisions?

Some of these countries became Chinese strongholds in the aftermath of the 2008 financial crisis, whereas others are part of the Chinese plan—whether the BRI or an overall growing presence on the European continent—to counterbalance the complexities of the U.S.-China relationship. China has already succeeded in creating a narrative—in Prague or Athens, political elites and the media talk about China in a way unprecedented over the past twenty years. As part of these new links, local

business communities engage with Chinese companies. Journalists travel to China, mostly on paid journeys. Citizens take Mandarin language courses at schools and universities, Confucius Institutes, or cultural centers; sometimes political parties are encouraged to conduct dialogues with units of the Chinese state or the Chinese Communist Party. In addition, the regime asks many organizations to engage with foreigners: the Chinese People's Association for Friendship with Foreign Countries; the Association of Chinese Journalists; branches of the All-China Women's Federation; business associations; state media, such as the *People's Daily* or Chinese Central Television (CCTV); think tanks, such as the Chinese Academy for Social Sciences; research centers; universities; sport federations; museums; and so on. In most cases, a noticeable increase in activity has occurred in recent years.

The four nations studied here are not big powers. By European standards, they are medium-sized or small powers with limited strategic resources and sometimes limited geopolitical visions.

Interestingly, Portugal and Greece, two maritime nations situated in the southern part of Europe, are former superpowers with glorious histories. On the eastern side, the Czech Republic, previously part of the Austro-Hungarian Empire, then part of Czechoslovakia, is surrounded by larger European countries, such as Germany and Poland, but remains a proudly independent member of the European Union (EU). Finally, the Republic of Serbia is one of the largest countries in Southeast Europe but still relatively isolated due to the 1990s Balkans war. It is close to the EU but not yet a member.

In addition to their economies (in three of the four countries, figures demonstrate a clear rise), these four countries are important due to China's growing presence in the form of soft power and sometimes political influence (sharp power).<sup>19</sup> The number of presidential and ministerial visits is a good case in point. Although relations between China and each country differ greatly based on historical bilateral relations, data collected through this research, including interviews with local actors and analysts, suggests China is slowly building a community of friendly countries. In most cases, there is also evidence that their foreign policy decisions have been influenced by a rising Chinese economic presence, which has led their governments to align with Beijing on issues ranging from human rights to the South China Sea.

Part of this study will look at a set of Chinese activities in these countries and try to determine the real level of influence that China may have on their societies. Unlike Russia, which has notoriously been interfering in the democratic systems of several countries (most notably the United States and Germany), China's influence is more opaque and discreet. Still, although lobbying may be an

English word,<sup>20</sup> the Chinese have certainly made it their own. Like many other powers, China is now using new ways to push its agenda<sup>21</sup>—not just economically, but also through the media, culture, think tanks, academia, sports, and even local Chinese communities and Chinese students via scholarly and student associations. Many of these entities operate under organizations such as the Chinese People’s Political Consultative Conference or the International Liaison department of the Chinese Communist Party, which are instrumental in propagating the regime’s messaging.

## Perceptions of China’s Role

China’s economic rise over the past three decades is an undeniable success that has not always translated into a positive image for the country. For the past ten years—to be precise, since the 2008 Beijing Olympics—Chinese leadership has been investing in its international image through a selection of public diplomacy tools,<sup>22</sup> including the Association of Public Diplomacy,<sup>23</sup> Confucius Institutes,<sup>24</sup> new think tanks,<sup>25</sup> overseas-based chambers of commerce, and Chinese cultural centers. China’s economic presence has been a key contributing factor to the country’s image, although the neighborhood factor has played a significant role in Asia, where opinions of it tend to be the lowest.

According to Pew Research Center’s 2017 Global Attitudes Survey, the nations having the lowest opinions of China are Vietnam (10 percent), Japan (13 percent), and India (26 percent). In Europe, Italy leads in negative views (31 percent, down from 32 percent in 2016), followed by Germany (34 percent, up from 28 percent). Greece, one of the four case studies here (and the only one surveyed by Pew in 2017), has a 50 percent favorable opinion of China.<sup>26</sup>

Generally, European public opinions are either slightly positive or negative. To be clear, Chinese economic, and to a certain extent political and cultural, actions are seen as opportunistic and not threatening by a majority of the elites in the four case study countries, which mainly see short-term benefits to an enhanced presence (Generally, long-term thinking on the issue of China’s rise is lacking.) China’s geographic and cultural distance makes it easier for governments to justify a connection to a remote economic player. Within Southern and Eastern European countries, public opinion, lack of interest, apathy, and pragmatism (exemplified by a sense that no one else came to their rescue during the euro crisis) dominate. Independent media reporting, academic work, and coverage on China are sparse. Even research on bilateral relations between China and each individual country is often limited due to a lack of resources or motivation.

## Portugal: A Former Superpower Cozying Up to an Aspiring One

Portugal, a European country with a long-standing relationship with China due to its own colonial history, notably in Asia, became a key partner of Beijing in Western Europe in 2004 after signing a strategic partnership exactly five years after the handover of its tiny colony of Macau to China. China has always been intrigued with the 220-million Portuguese-speaking community worldwide, and in 1996 studied the creation of the Comunidade dos Países de Língua Portuguesa, a community based on the shared language of nine countries on four continents.<sup>27</sup> It is headquartered in Lisbon.<sup>28</sup> Each year, the Sino-Portuguese Macau Forum takes place in the former colony, sometimes in the presence of the Portuguese prime minister and a Chinese vice premier. The Macau connection has played a crucial role in the continuation of the Sino-Portuguese relationship, primarily through a group of influential politicians and advisers once posted in that former colony. For example, the last governor of Macau, General Vasco Joaquim Rocha Vieira, has served as a general board member of Energias de Portugal SA (EDP) since 2012. Some of these advisers were instrumental in bringing in the first wave of Chinese investors in the 1990s, mainly in real estate through the empire of Stanley Ho, the Portuguese-speaking casino magnate. Several thousands of Chinese investors were granted Portuguese nationality through a mechanism called the Residence Authorization for Investment, or “golden visa,” scheme that allows anyone with a €500,000 investment (about \$580,000), such as in real estate, to apply for permanent residency and ultimately a Portuguese (and EU) passport. As of January 2018, about 3,588 Chinese nationals had benefited from the scheme—constituting 60 percent of total golden visas, according to the Immigration and Borders Service.<sup>29</sup> The total private investment tied to the scheme is €2.06 billion.

Relations between China and Portugal took a fresh step when then president Hu Jintao visited Lisbon in 2010. Current Premier Li Keqiang also visited in 2016 in addition to a stopover in the Azores, raising concerns in Washington and Brussels about possible investment plans for a maritime research and commercial center on the island of Terceira, next to the U.S. Forces Azores (USAFORAZ) base at Lajes Field. Visits have continued on both sides, including one by the enthusiastic Prime Minister António Costa,<sup>30</sup> who, along with Li Keqiang, attended the fifth Ministerial Conference of the Forum for Economic and Trade Cooperation Between China and Portuguese-Speaking Countries in Macau in October 2016.

Above all, Portugal has become an important recipient of Chinese investment in Europe; per capita, it is one of the largest.<sup>31</sup> Between 2010 and 2016, the level of Chinese foreign direct investment (FDI) went from nil to €5.7 billion (about \$6.6 billion). It is now closer to €9 billion. According to Portuguese executives, China was the only country willing to step in at the height of the financial

crisis in 2010, when the Lisbon government was under pressure from the European Commission, European Central Bank, and International Monetary Fund (the so-called troika) to sell state assets. The Lisbon government in fact went significantly beyond the €5.5 billion goal imposed by the troika.<sup>32</sup> China has invested in a wide range of sectors: electricity, oil, transport (national air carrier TAP), financial services, insurance, health, real estate, hospitality, and the media, to name a few.

As part of the 2011 bailout, in 2015 China Three Gorges (CTG) bought 21.35 percent in Energias de Portugal SA (EDP), the country’s formerly state-owned top grid company, for €2.7 billion (more than \$3.1 billion). At the time, CTG was a relatively minor Chinese state-owned corporation responsible for the construction of the controversial Three Gorges dam in China. “The reason CTG invested in EDP [was] three-fold: first, the main Chinese player—State Grid was already targeting [Portugal’s public power company]; second, we were in the same business and it made sense in our overseas markets; third, they wanted a foot in the EU renewable energy market,” said an EDP insider.<sup>33</sup> The Chinese company was preferred to an offer from EON, based in Düsseldorf.

Figure 1: Portugal’s Imports From China in U.S. Dollars (2008–2017)



Source: <https://tradingeconomics.com/portugal/imports/china>

EDP, which still receives subsidies from the government, is an integrated generator, supplier, and distributor of electricity—by assets, the largest company in Portugal. It has subsidiaries in the field of renewable energy (wind farms, hydro plants) in Spain and the United States; it is now the fourth-largest wind operator in the world. As a major player in the U.S. wind energy market, EDP could lead the Committee on Foreign Investments in the United States (CFIUS) to block the deal.

In 2017, CTG raised its stake to 23.3 percent in EDP; meanwhile, in May 2018, the Chinese company offered to take over the entire capital of EDP for €9.1 billion (almost \$11 billion) while keeping EDP listed on the Lisbon stock market.<sup>34</sup> CNIC, another Chinese company, holds an additional 5 percent of EDP; other leading shareholders include U.S. financial services company Capital Group, with 12 percent, and the U.S. private equity firm BlackRock.<sup>35</sup> In 2017, the government of Portugal relaxed an investment rule that previously barred Chinese companies from adding their votes in case of a takeover bid. This change means there is no limitation on how CTG and CNIC can vote as shareholders as a takeover bid progresses.

Costa said the government had “no reservations” about such a bid, as it was “a matter for shareholders to decide.”<sup>36</sup> He signaled he would not interfere with any takeover approach regarding EDP. In other words, Lisbon wanted to show that it welcomed Chinese investment as discussions between the two countries were being finalized on the southern deepwater port of Sines.<sup>37</sup> Located at the juncture between the Mediterranean Sea and northern Europe, Sines can and will provide for the intersection between the land and maritime routes of the Belt and Road Initiative, “whose potential . . . [is] unquestionable,” according to the Portuguese foreign minister.<sup>38</sup> Lisbon’s potential railway to Spain may allow an intermodal connectivity with the rest of Europe.

In another transaction, in 2011, the public power transmission monopoly Redes Electricas Nacionais (REN) sold 25 percent of its capital to China State Grid (CSG), a major state-owned enterprise. Unlike CTG, CSG is not considered to be an active investor in Portugal, although it should be noted that the company’s chairman has been paying yearly visits to Portugal, including a courtesy call to the prime minister. CSG, which holds significant overseas investments in Australia, Brazil, Italy, Greece and the Philippines, has three members on the REN board.

As for the Fosun Group, a privately-owned Shanghai-based company that has been investing internationally for almost a decade, in 2014 it acquired Fidelidade, Portugal’s largest insurer, which itself owns 6 percent of REN. Fidelidade was sold for €1.1 billion (nearly \$1.3 billion) following a government decision to sell 80 percent of its capital. Fosun made the best offer over that of Apollo, a U.S. equity fund, and also took over a 5 percent share originally devoted to Fidelidade employees.<sup>39</sup> Internally, this sale has been seen as a “positive stimulus,” according to the management of Fidelidade, which under its Chinese owners has acquired several commercial buildings and the Luz group of private hospitals for €450 million.

Additional major Chinese investments include energy (Galp Energia), air transport (TAP), and media (Global Media Group, 30 percent of which was acquired by KNG, a Macau-based fund<sup>40</sup>).

Taken together, these acquisitions are strategic assets with strong potential to play an influential role in Portuguese society. Global Media Group is the owner of the Portuguese newspapers *Diário de Notícias* and *Jornal de Notícias*, and Radio TSF. In addition, it is a shareholder of Lusa, Portugal's partly state-owned news agency. With a much-reduced budget, in 2015 Lusa formed a partnership with China's *People's Daily* for an exchange of information during one of the Belt and Road media summits hosted in Beijing by the Chinese Communist Party's top newspaper.<sup>41</sup>

More generally, Chinese investors have acquired significant real estate and commercial land, and Portugal is becoming a top destination for Chinese tourists.<sup>42</sup> It is expected that the flow will continue in the run-up to the state visit by President Xi in late 2018, accompanied by more statements along the way supporting the BRI. The Portuguese government is adamant that relations between Portugal and China, "built upon more than five hundred years of mutual knowledge and the successful handover of Macau," will lead to a flourishing partnership.<sup>43</sup>

The Portuguese people have indeed inherited the glorious history of a former superpower that comes with the long-term relationship with China established from the Ming dynasty (1557) onward.<sup>44</sup> That year, the Portuguese kingdom paid an annual tribute of 500 taels to remain in its enclave of Macau, which was handed over to Beijing in 1999 after nearly four hundred years of Portuguese colonization.

By adding Portugal's other former Asian territories, such as Malacca (now in Malaysia), Goa (now in India), or even Taiwan (formerly known as Formosa<sup>45</sup>), some Portuguese apparently "romanticize the idea of their influence in the world," according to an expert.<sup>46</sup>

Others insist on Portugal as belonging to the West for a long time to come. "We are not prepared to sacrifice democracy or our values," one senior corporate executive said.<sup>47</sup> "If something goes wrong, we can always nationalize Chinese assets" insisted another executive, who opposes a "conspiracy theory" in the form of a Chinese takeover of Portugal. Generally, the Portuguese elites are adamant about their lack of options. "Where were EU countries at the time of the financial crisis? Those who are now criticizing us?" At the nadir of the financial crisis, Germany provided loans to Portugal,<sup>48</sup> taking advantage of low interest rates, which led to some anti-German resentment. Some have taken a divergent opinion. At a 2015 conference in Lisbon, former president of Banco Portugues de Investimento Fernando Ulrich said, "I am shocked with these big Chinese investments in strategic Portuguese companies. . . . Portugal has become a Chinese aircraft carrier into Europe."<sup>49</sup>

For the past three years, the public discourse has become increasingly favorable to Chinese investment and the BRI, with the government openly intending to offer Lisbon as one of the top destinations for them. The Câmara de Comércio e Indústria Luso-Chinesa is openly sponsored by Chinese companies, as listed on its website,<sup>50</sup> which displays a large number of activities that encourage Sino-Portuguese joint ventures. Consequently, there are few dissenting views.

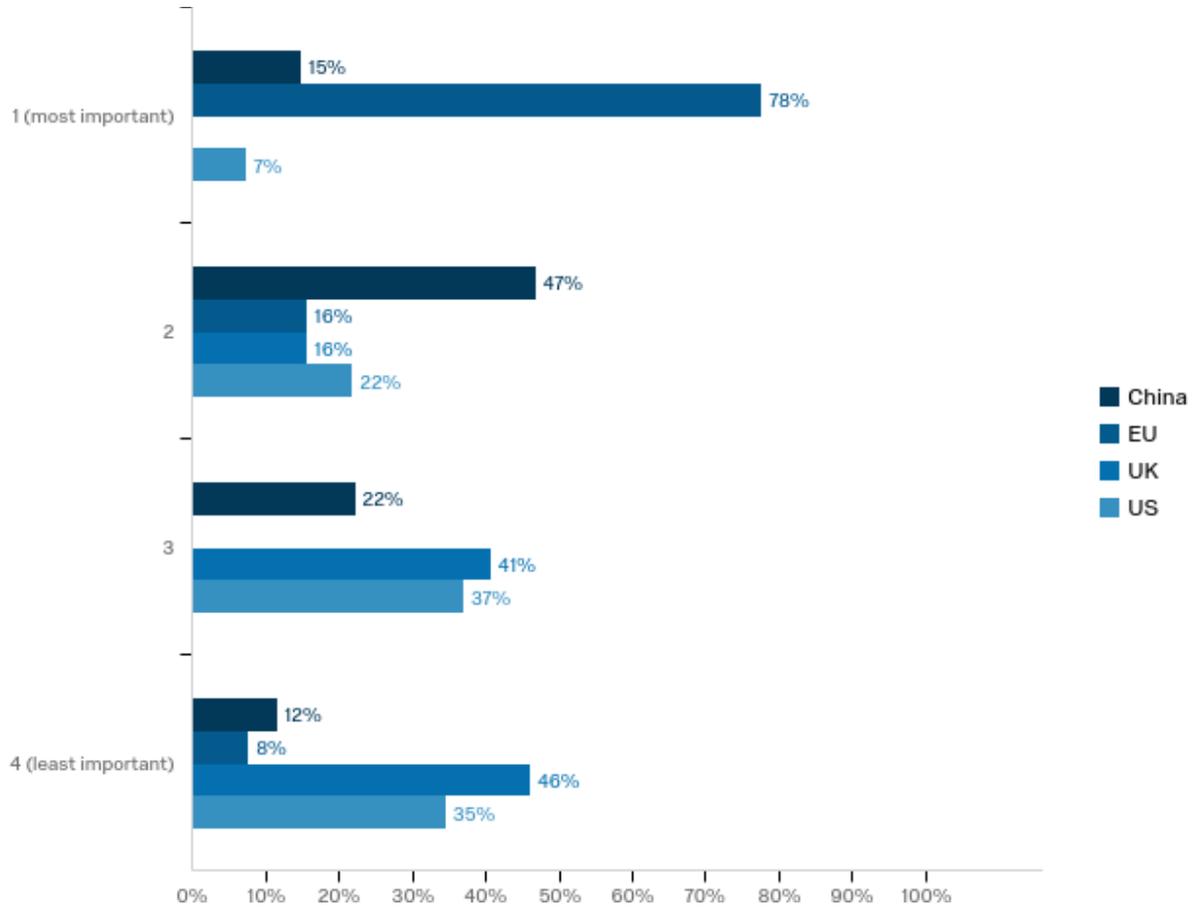
In the cultural field, the (private) Fundação Oriente,<sup>51</sup> which has a branch in Macau, has been the main center of Asia-related artistic activities in Lisbon. The construction of a China-sponsored Culture Center in Lisbon is expected to be completed soon. During 2017, a number of Chinese cultural activities took place in Portugal—among them, the first Luso-Chinese Literature Forum, held in the Lisbon Macau Science and Culture Center<sup>52</sup>; and a China Day, held during the thirtieth Lisbon International Handicraft Fair.

## Perceptions

How does all this activity translate to the Portuguese population? Our survey shows mixed results. Comparing responses from Q4 and Q5 (most important “country” today vs. most important “country” ten years from now), we got the following results:

- Ninety percent of the respondents viewed the EU as most important to Portugal today. In contrast, just 6.67 percent viewed China as the most important today.
- The EU remains the predominant preferred FDI partner for Portugal for a majority of respondents.
- However, the gap in the perceived relative importance of the United States and China narrowed noticeably when respondents were asked about ten years from now. (The United States and China received 22 percent and 47 percent of the vote for second place, respectively.)

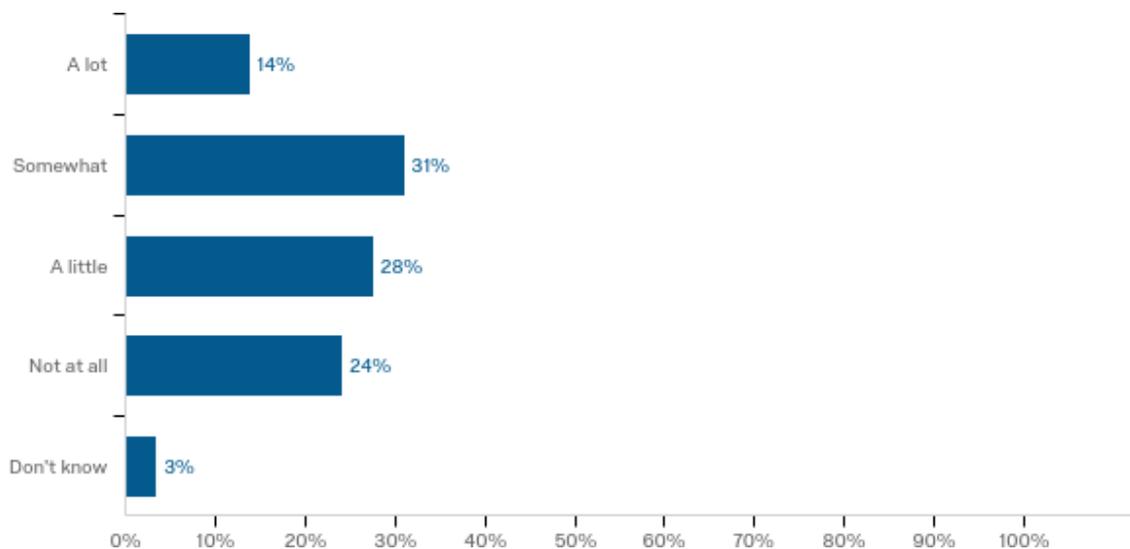
Figure 2: Who Will Be Most Important to Portugal in Ten Years?



Source: Survey by author, sample size of 35.

Regarding other perceptions of China, 62 percent of the respondents perceived it favorably, but 54 percent wanted more discussion about China in Portuguese society, with nearly 43 percent saying that much more discussion would be good. As for perceptions of China in Portugal, our figures show 10 percent “very favorable,” 52 percent “somewhat favorable,” 17 percent “neutral,” 10 percent “somewhat unfavorable,” and 10 percent “very unfavorable.”

Figure 3: How Much Has China's Activity in Portugal Impacted Portuguese Foreign Policy?



Source: Survey by author, sample size of 35.

Although generally conservative, Portuguese people are also broad minded and market oriented. Yet it is perplexing that so little debate has taken place on the issue of China's presence in the country. One academic interviewed on the subject expressed a common view in his profession: "There is no meaningful debate in Portugal about this (and other) deals involving China. The very small Portuguese academic community of China specialists is very neutral on this issue and some of them are involved in research projects with Chinese universities or are indirectly subsidized by China (via its embassy)."<sup>53</sup> Unlike their counterparts in the Czech Republic and Greece, for example, Portuguese academics so far have not taken part in a public debate on Chinese foreign direct investment; neither have they provided a critical assessment in written form or in public venues. As China's economic presence begins to reach a critical mass, this situation may soon change; however, whether this development could take place before or after the upcoming state visit is an open question.

China's case in Portugal has not been helped by a recent occurrence: in February 2018, China Energy Company Limited (CEFC), well known for its presence in the Czech Republic, almost acquired Partex, the energy business of the Calouste Gulbenkian Foundation Group, for €500 million (about \$583 million). The deal was cancelled in April after it was revealed that the founding

chairman of CEFC, Ye Jianming, had been arrested in China. This development led to some fairly critical press articles.<sup>54</sup> President Xi Jinping is scheduled to visit Lisbon in late 2018, when it is expected that Portugal will offer its support to China's BRI.

## Greece: A Maritime Nation Now at the Heart of the Maritime Silk Road

In modern times, Greece established diplomatic relations with the People's Republic of China in 1972. Then prime minister Konstantinos Karamanlis visited China in 1979. Like Portugal and many other countries, Greece became one of Beijing's "strategic partners" in 2006. It appears that the successive Olympic Games in Athens (2004) and Beijing (2008) played a crucial role in the closer relationship that began in that decade. However, it was the European financial crisis that moved the Sino-Greek relationship into a new phase.

Interestingly, Sino-Greek cooperation in maritime transport, which began through initial conversations regarding the Port of Piraeus in 2008, was based on the EU-China Maritime Cooperation (2008) and Strategic Agenda 2020.<sup>55</sup> China's State Oceanic Administration (SOA) defines the twenty-first century as the "century of oceans: the status of oceans in national development dominates more than in any other period of history." An SOA annual report explained that China's maritime gross domestic product (GDP)—including research, transport, exploitation of resources, tourism, and services—represented almost 10 percent of China's GDP in 2016.<sup>56</sup> At its 19th Party Congress, as noted by authors Mathieu Duchâtel and Alexandre Sheldon Duplax, China "elevated the 'construction of a strong maritime country' . . . to the level of [a] national goal for the very first time."<sup>57</sup> Maritime ambitions are part of China's global ambition to play a central role on the international stage.

It is thus no surprise that China has taken a strong interest in Greece, which hosts one of the region's best-located harbors and is connected to the Near East, South Europe, North Africa, and many shipping companies. As the world's top trading nation, China is well aware of Greece's long-established industrial and port opportunities. For example, the two countries announced 2015 as the "Year for Maritime Cooperation Between Greece and China," thus contributing further to mutually beneficial cooperation in the sectors of shipping, trade, and tourism.

## Economic Relations

In the aftermath of the 2008 financial crisis, China became a key investor in Greece.

That same year, a thirty-year concession was awarded to the Chinese state-owned shipping giant China Overseas Shipping Group Co. (COSCO) to manage two terminals of the commercial Port of Piraeus near Athens for the sum of €490 million, or about \$570 million (apparently five times more than the market value).<sup>58</sup> Located in the same area as the ancient Athenian port, Piraeus is a commercial harbor but is also Europe's largest passenger port, serving approximately 15 million passengers yearly. When COSCO first arrived in Athens, it was met with a month-and-a-half-long dockworkers' strike and a banner displayed along the waterfront: "COSCO Go Home." At that time, Piraeus was a struggling harbor, worn down by decades of industrial decline and the country's protracted debt crisis. Greece's economic crisis was a punishing one. The unemployment rate at times reached 70 percent in the Athens suburbs due to a process of de-industrialization and a badly performing shipping industry, which had been the nation's economic flagship.

In 2013, COSCO was given another five-year contract and the right to build a third terminal. COSCO chose to increase its investment by renovating—for another €230 million—the existing terminals, thus making Piraeus its port of entry into South Europe,<sup>59</sup> with the aim of targeting opportunities in Balkan and Mediterranean countries. Finally, in 2017, COSCO took over 67 percent of Piraeus Port Authority and was granted a forty-year concession. Most Chinese companies started using it as the main platform of Beijing's maritime Silk Road—part of its Belt and Road Initiative. During a 2016 visit to China, Prime Minister Alexis Tsipras declared that Greece intended to "serve as China's gateway into Europe."<sup>60</sup> In May 2017, he attended Beijing's BRI summit.

Overall, this investment ranks as one of the most successful Greek privatizations in recent decades. COSCO has successfully upgraded the infrastructure, introduced more efficient machinery and equipment, dealt with labor union issues, improved the management system, and created more traffic.<sup>61</sup> In 2008, Piraeus moved just 433,582 containers. In 2016, that number had grown more than sevenfold to 4 million TEU,<sup>62</sup> with the aim of reaching 6.2 million. New investments include a new pier, a ship-repair zone, a logistics center, and a car terminal.<sup>63</sup> COSCO has installed eleven new loading cranes, which will put its Piraeus operations on roughly equal footing with the capacity at Rotterdam, Antwerp, and Hamburg, Europe's three busiest container ports. By 2016, the new COSCO-built container terminals employed 1,200 workers, silencing most labor union unrest.<sup>64</sup> Meanwhile, on the passenger front, plans are under way for new hotels and other facilities to

welcome incoming Chinese visitors, now mainly arriving on a recently opened direct Air China flight. In 2016, the number of Chinese tourists reached a record 35,000.<sup>65</sup>

Chinese leaders have spent a great deal of time visiting Greece: in 2008, then president Hu Jintao paid a visit to attend the signing ceremony for the first Chinese investment in Piraeus; then premier Wen Jiabao came in October 2010; and in the summer of 2014, both President Xi Jinping and Premier Li Keqiang visited Athens. Li spent three days in Greece—an exceptional duration for an official trip—which led to no less than nineteen cooperation agreements and commercial contracts, for a total of €3.4 billion (almost \$4 billion). One year later, Li was asked in Brussels if China was willing to provide loans or other financial aid to help Greece; he responded by restating China’s preference for “a united Europe, and prosperous European Union, and a strong euro.” He added that “as for the issue of Greek debt, in principle it is an internal affair of Europe. Having said that, whether Greece would stay within Europe is not only a question that concerns Europe but also concerns China and Europe . . . that is why China has made its own efforts to help Greece overcome the debt crisis.”<sup>66</sup> Subsequently, the flow of Chinese officials to Athens has not slowed down: regular visitors include a deputy prime minister, ministers, vice ministers, chief executives of state-owned enterprises, and some private entrepreneurs.

As an investor, China seems determined to defend its own interests and express its views publicly and locally. For months, it adopted a wait-and-see attitude so as not to become a scapegoat in the Greek political context. Eventually, this strategy was successful. As Greece’s economy improves, China is now hopeful it can obtain political dividends for its presence and support in Greece.<sup>67</sup> Although there is little doubt that China will use Piraeus to enhance its presence in Greece and the Mediterranean region, its interest in Greece’s long-term economic future is less clear.

The country remains heavily indebted; at the same time, foreign investors have benefited from a drop in asset prices, including the value of companies, real estate, industrial land, and even labor. With estimates ranging from €1.1 billion (Chinese Ministry of Commerce) to €5.7 billion (AEI investment tracker), “China has yet to join the list of the most important foreign investors in Greece.”<sup>68</sup>

Figure 4: Greece's Imports From China in U.S. Dollars (2008-2017)



Source: <https://tradingeconomics.com/greece/imports/china>

In addition to Piraeus, another major Chinese investment has been the acquisition of a 24 percent stake in Independent Power Transmission Operator (IPTO) by China State Grid International Development, also a stakeholder in Portugal's REN. Other investments include renewable energy and telecommunications. For example, in late 2017, Shenhua Renewables acquired four wind parks, currently run by Copelouzos Group, a local company. Led by the Shanghai-based group Fosun, already active in several European countries, including Portugal, a consortium has purchased the former Hellenikon airport south of Athens to turn it into a leisure complex in the mode of Dubai.<sup>69</sup> In addition, China State Construction Group (a state-owned enterprise) has expressed interest in the Kastelli airport. Other investors were not as successful, despite financial backing from the New Development Bank, although many more Sino-Greek memoranda of understanding (MOUs) have been signed. The level of investment may have plateaued to some extent, however: fewer Chinese companies brought in by COSCO have been using Piraeus as a hub, and COSCO itself has not made an offer for Greece's rail network (which would mean the privatization of TrainOSE). Among the possible reasons are Greece's political uncertainty and the migrant crisis. Greece's "new rejuvenation" may be a good reason for China's interest, however.<sup>70</sup>

## Implications for Greece's Foreign Policy

Asian matters have not featured prominently in Greece's foreign policy, although Athens, as a member of the EU, has had a voice in all major EU decisions and statements.

On two occasions, Greece has taken a view that diverged significantly from that of the EU. In July 2016, it plunged the EU's foreign policy into disarray by blocking a statement following the International Arbitration Court ruling on the South China Sea. Thus, instead of the strong statement of support submitted to the European Council by the European External Action Service, acknowledging a ruling unfavorable to Beijing, the EU issued a very general statement on the arbitration outcome, delivering a symbolic victory for China.<sup>71</sup> This victory was the result of Greece's influence, along with that of Hungary and Croatia.

In June 2017, the Athens government blocked another statement by the EU—this time at the United Nations—criticizing China's human rights record, calling it “unconstructive criticism of China.”<sup>72</sup> A Greek Ministry of Foreign Affairs spokesperson elaborated that “Greece's position is that unproductive and in many cases, selective criticism against specific countries does not facilitate the promotion of human rights in these states, nor the development of their relationship with the EU.” Such has been the evolution of the Greece-China cooperation, with the Syriza-controlled government opportunistically pushing its advantage vis-à-vis China, and often against the EU.

The next area in which Greece could oppose the EU is the plan to increase the screening of foreign direct investments. Will it at least agree to a nonbinding mechanism for certain types of investments (particularly technology and infrastructure) or at least remain neutral? “Our government makes decisions based on the interests of the country,” said Sergio Pitsiorlas, the deputy minister of economy. “In the past, Greece has felt hypocrisy on the part of some international players who themselves accepted Chinese investments.”<sup>73</sup> Athens maintains it will act “constructively” within the EU framework, but past examples have led to criticisms and doubts.<sup>74</sup> The fact that China has become a factor in Greek foreign policy is difficult to downplay. For the past decade, Beijing has had a growing economic presence in Greece, only reinforced by Athens' perfect location in the Mediterranean at the heart of China's ambitious maritime Silk Road. This presence may come with a price, however.

## China's Soft Power in Greece

Still facing a difficult economic environment, Greece wishes to benefit from China's presence. The Tsipras government hopes that Chinese investors will make a real difference in job creations, which have not been massive until now. Research scholars Plamen Tonchev and Polyxeni Davarinou estimate that the COSCO investment in Piraeus "could create 31,000 new jobs," and that "up to 75,000 jobs" could potentially result from the Hellenikon project.<sup>75</sup> For its part, the Greek Ministry of Economy does not want to commit to specific figures.<sup>76</sup> It is therefore much too early to evaluate the socioeconomic benefits stemming from Chinese investments.

China also has stepped up its Greek presence on other fronts. For example, it has set up a Business Confucius Institute embedded at the Athens University of Economics and Business.<sup>77</sup> Unlike other Confucius Institutes around the world, the aim is clearly to reinforce business links between China and Greece, a "strategic partner." In May 2018, Hanban, the official body running the Confucius Institutes, chose Athens to convene the annual meeting of European Confucius Institutes.<sup>78</sup>

The two countries have been looking at their (limited) common heritage, trying to build a joint narrative that would fit the Belt and Road Initiative. Always keen on building its soft power in key countries, China has sponsored numerous cultural activities. The "Greece-China 2017 Year of Cultural Exchanges and Cooperation of Creative Industries Relations" took place then, but according to the website,<sup>79</sup> this effort is still under way: the latest high-level meeting was hosted in Athens by the Ministry of Education, Research, and Religious Affairs, and included the signature of a 2018–2020 Action Plan for scientific and technological cooperation on May 23, 2018 between the deputy minister of research and innovation, Kostas Fotakis, and the Chinese vice minister of science and technology, Li Meng.<sup>80</sup> A Greece-China city forum has also been set up and, in April 2017, Greece hosted the Ancient Civilizations Forum, attended by Chinese representatives.

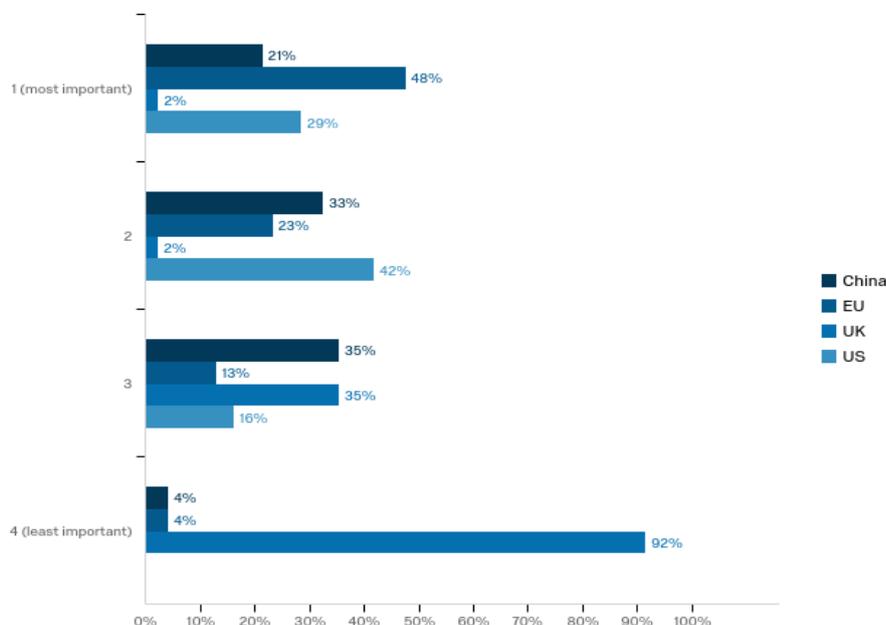
Greek academics have begun taking an interest in China as well. Several forums are taking a deep look into Sino-Greek relations, including a China-Greece website.<sup>81</sup> According to Plamen and Davarinou, five Greek research and educational institutions have joined forces in a "consortium for the promotion of Sino-Greek relations" to study Chinese investment in Greece. They have published a large number of articles and organized a conference on "The New Silk Road of China: One Belt, One Road and Greece."<sup>82</sup> According to a report by *Naftemporiki* newspaper, between January and August 2018, 1,521 golden visas were granted to Chinese citizens out of a total of 3,154.<sup>83</sup>

## Perceptions

Since 2015, despite original misgivings from members of both Greek unions and the radical Left, the Greek government has offered unlimited support to China's growing economic presence. The business community, notably the Hellenic Federation of Enterprises and the Athens Chamber of Commerce,<sup>84</sup> seem fully supportive of attracting foreign investors—including those from China. At the 2018 Delphi Economic Forum IV, an almost unanimous chorus favored Chinese investments.<sup>85</sup>

At the grassroots level, does the Greek population support China's growing presence in the country? Based on the 2017 annual Pew Research Center survey, the answer seems an emphatic yes: 50 percent of Greeks have a favorable or somewhat favorable view of China, with only 40 percent somewhat unfavorable or very unfavorable. (In our own survey, close to 60 percent of the respondents perceived China favorably.) In addition, among the options listed, more respondents (53 percent) listed China above the United States (36 percent) as the second most important country for Greece today. When asked about which country they believe will be the most important to Greece ten years from now, respondents list the EU (48 percent), the US (29 percent) and China (21 percent). This result suggests an expected relative rise in China's perceived importance as compared to the United States in ten years' time.

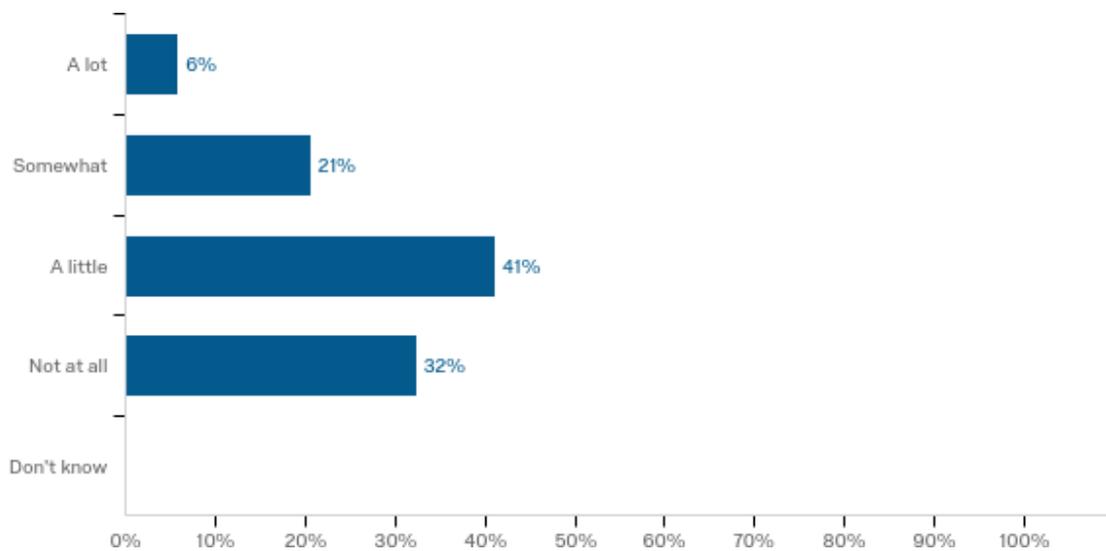
Figure 5: Who Will Be Most Important to Greece in Ten Years?



Source: Survey by author, sample size of 40.

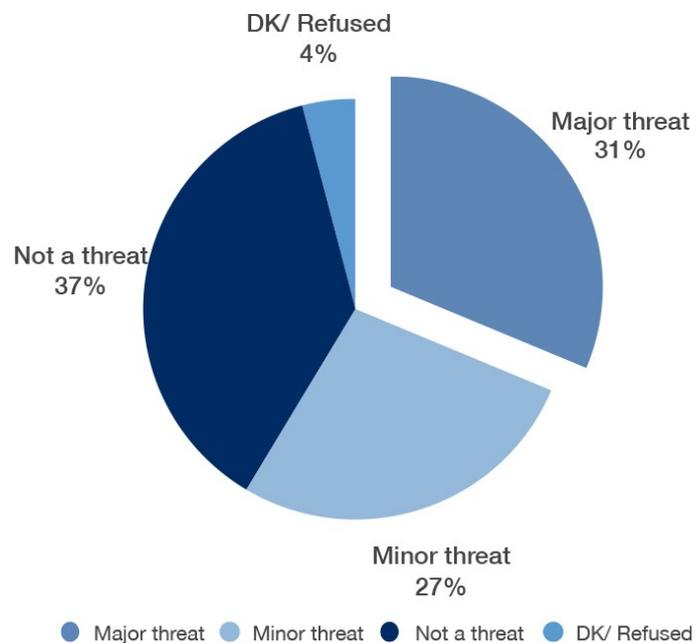
Asked by Pew about some possible international concerns about China’s power and influence, 31 percent of respondents saw China as a “major threat,” whereas 27 percent saw a “minor threat” and 37 percent “not a threat.” As China becomes more visible in Greece, positive opinions are on the rise compared to previous surveys in 2016 and 2014: in our survey, when asked how they view China’s increasing economic influence on the Greek society, 19 percent said very positive, 45 percent answered slightly positive, and 35 percent were neutral. Nearly 68 percent of our respondents believed that China’s activity in Greece in recent years had an impact on Greece’s foreign policy decisions. However, 41 percent believed that impact to be small.

Figure 6: How Much Has China’s Influence in Greece Impacted Greek Foreign Policy?



Source: Survey by author, sample size of 40.

Figure 7: How Much of a Threat is China's Power and Influence in Greece?



Source: Survey by author, sample size of 40.

### The Czech Republic: Buying Influence?

One of Central Europe's fiercely independent nations in the post-1989 era,<sup>86</sup> the Czech Republic long had been known as a staunch advocate of human rights. Following the fall of the Berlin wall and democratization across the region, the election of writer and former dissident Václav Havel as the nation's first president in 1992 led to Prague becoming the center of human rights and democracy activism in Central Europe. "We were considered a model of the Velvet Revolution, especially on human rights. At the same time we had Communist ministers in our government," recalled former Havel adviser Petr Kolar.<sup>87</sup> Liu Xiaobo, the imprisoned Nobel Peace Prize winner who died in 2014, was inspired to write his Charter 08 declaration based on the Czech dissidents' Charter 77.<sup>88</sup>

As Beijing warily watched developments in Eastern Europe in 1989, Czech relations with China became cool and distant. Every year, the highly popular Havel hosted fellow Nobel Prize winners, including the Dalai Lama and former leaders of the 1989 Tiananmen Square pro-democracy

movement in Beijing. Despite having formal diplomatic relations with Beijing, Havel even hosted Taiwan's then premier Lien Chan in 1995, leading relations with China to an all-time low. Such an invitation would be considered unacceptable by China today. Prague even supported Taiwan's re-entry into the United Nations before committing to the One China policy in 1996 under pressure from Beijing.<sup>89</sup>

Havel's successor, Václav Klaus, attempted to improve relations, traveling to Beijing in 2009. It was current President Miloš Zeman who orchestrated a complete change, however. He met President Xi Jinping in Beijing in 2014, and subsequently was the only Western leader to attend Beijing's military parade in September 2015. Zeman's entourage also began engaging with potential Chinese investors, especially a man called Ye Jianming, chairman of CEFC, who claimed strong connections with China's top leadership. The driving forces for the CEFC connection have been former defense minister Jaroslav Tvrdík, former foreign minister Jan Kohout, and former prime minister Petr Nečas, all members of the Social Democratic Party. In 2016, Xi Jinping paid a carefully staged state visit to Prague, giving China a unique platform in a country not considered an ally. Still, Martin Hala, a China commentator, noted that "in the end, it didn't quite work out that way, at least not on a PR front. The Chinese embassy in Prague organized welcoming crowds of their own citizens, and both the Chinese visitor and his Czech host overplayed their hand, and made a mockery of this new 'heart-felt friendship'. Keenly aware that their newfound harmony is not widely shared by the Czech populace, both sides went too far in ensuring that potential trouble-makers were kept safely out of sight."<sup>90</sup>

On CCTV, Zeman declared that the Czech Republic had had poor relations with China due to the "submissive attitude of previous governments towards the U.S. and the EU."<sup>91</sup> In 2016, as CEFC rose to world prominence when it revealed its purchase of a \$9.1 billion stake in the Russian state-controlled oil giant Rosneft, Ye Jianming was made an honorary economic adviser to the president—a rare honor for a foreigner.

Although it has the word "energy" in its name, CEFC is mainly a financial company that has been at the core of many Czech business projects.<sup>92</sup> This involvement has included a 15 percent ownership of J&T Financial Group; a 49.9 percent stake in Travel Service, the Czech Republic's private airline; and involvement in the Czech brewery group Lobkowicz; the Prague soccer club Slavia Praha; the national airline; and real estate in central Prague, such as the Florentinum office building. No significant investment in energy has taken place, however.<sup>93</sup>

In March 2018, according to media reports, Ye was arrested in China, “raising eyebrows in Prague.” Martin Hala, who has been tracking Sino-Czech relations over the past several years, noted that two envoys of the Czech president (Vratislav Mynar and Martin Nejdely) were told in Beijing that “CEFC would effectively be taken over by the Chinese state, together with its Czech acquisitions.”<sup>94</sup> CITIC, a Chinese state-owned company, technically has taken over CEFC Europe, the Czech-based unit of CEFC, but much uncertainty remains.<sup>95</sup> As mentioned by Bethany Allen-Ebrahimian and Emily Tamkin in a *Foreign Policy* piece, “it’s not just investment that’s at stake,” it is also the credibility of the president’s office.<sup>96</sup> They added “Zeman has made significant ideological concessions to Beijing after cozying up to CEFC, raising questions about heavy-handed Chinese political influence in the central European country.”

Figure 8: The Czech Republic’s Imports From China in U.S. Dollars (2008–2017)



Source: <https://tradingeconomics.com/czech-republic/imports/china>

Despite the president’s strong will, which led to the country’s foreign policy shifts, Chinese investments in the Czech Republic remain minimal. From almost nil, bilateral trade has increased: In 2016, Czech exports to China climbed to \$1.9 billion (1.19 percent of total Czech exports), but Chinese exports to the Czech Republic amounted to \$17.8 billion (12.66 percent of total Czech imports), underlining a massive deficit between the two nations.<sup>97</sup> Tourism from China has been increasing, with three direct flights from Beijing, Shanghai, and Chengdu; a fourth one—Kunming—is being finalized. Czech Invest, the Czech agency for investment promotion,

estimated in 2017 that China had become one of the top five foreign investors in the Czech Republic, but few projects actually have been executed.<sup>98</sup> Real data and numbers remain sparse. On the Czech side, in 2014 the PPF group, led by Petr Kellner, received a nationwide Chinese license to operate its Home Credit services in China. According to a recent report, Kellner received lobbying help from CEFC associate Jaroslav Tvrdík.<sup>99</sup>

These awkward developments, especially with regard to Zeman and his entourage, have prompted a debate about “the wisdom of tying the country’s future to mysterious Chinese entities and to the Communist regime in Beijing,” according to Hala, who argues that CEFC’s main investments in the Czech Republic “weren’t economic, they were about buying up the loyalty of Czech officials.”<sup>100</sup>

## Regional Context

It is hard to separate the Czech case from its regional context. Since 2010, Central and Eastern European (CEE) countries—all former members of the Socialist bloc—have become important to Chinese strategy. Enter the so-called 16+1 format. Almost all countries of the region are part of this group, set up by China to increase its relations with former members of the Soviet bloc. The sixteen members comprise eleven EU members (Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, and Slovenia) and five non-EU members in the Balkans (Albania, Bosnia and Herzegovina, Macedonia, Montenegro, and Serbia), and Greece has offered to join.

Many of these countries, having been full members of the EU since 2004, felt chastised by the EU and Germany during and after the 2008 euro-debt crisis. Several governments, including those of Poland, Hungary, and the Czech Republic, have also been unhappy with the ways in which the EU handled the 2016 Syrian refugee crisis; above all, they have needed cash, which led a number of local politicians to welcome and encourage Chinese investments in infrastructures. Although the EU has pumped large amounts of money into the region for the past fifteen years, those funds have come with strings attached (that is, with strict competition rules and transparency requirements) in the form of grants. Chinese loans tend to be more difficult to track down and thus are favored by less principled businessmen and politicians.

What is China’s aim with CEE? Increased influence and presence, leverage on European institutions for those member-states, and the potential impact on the EU for aspiring members in the Balkans. It may also be testing its own political model of state capitalism in Eastern Europe’s relatively adolescent institutions. By and large, it is looking to build a coalition of friendly nations on the

world stage, and CEE is a key component. Unlike in Central Asia and the Caucasus, it is unlikely that Russia will interfere in China's plans in Eastern Europe. As researcher Anastas Vangeli has pointed out, what matters here is China's symbolic power: "China creates the list of the CEE countries that comprise the region, exercising the power to arbitrarily consecrate [the] boundaries of the CEE region . . . comprised by the countries only China considers part of the region. Moreover, inside the 16 + 1, the CEE representatives know very little about countries other than their own or their close neighbors; in fact, the ones who possess a holistic knowledge of all of them are the Chinese representatives."<sup>101</sup> The latest 16+1 summit took place in July 2018 in Sofia, Bulgaria.

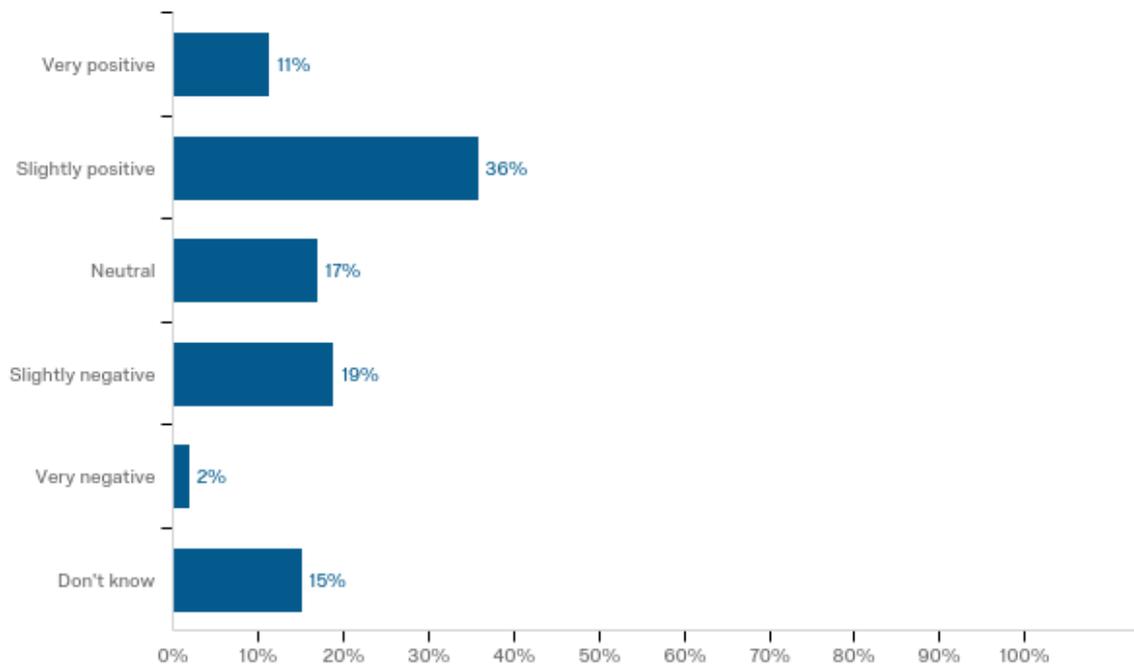
### China's Soft Power in the Czech Republic

Miloš Zeman, who is also considered pro-Russia and has opened the door to Chinese investors, was re-elected as Czech president for a second term, albeit by only a slight margin.<sup>102</sup> The Czech president has limited powers, but he has benefited from an extended deadlock in Parliament around forming a new government. Eventually, in July 2018, a cabinet under Prime Minister Andrej Babiš was appointed.

Thanks to a favorable environment under Zeman's presidency, China (through CEFC) has increased its presence. The president's office and several ministries have been supplied—for free—with tablets and smart phones by the Chinese telecommunication company Huawei without much of a public debate ever taking place.<sup>103</sup> In another example, the Czech-China Chamber of Commerce is chaired by CEFC's Jaroslav Tvrdík. Several think tanks have hosted BRI-related conferences, including a newly formed Sino-Czech Center for Cooperation on the Belt and Road Initiative, which held its first forum in 2017. Numerous politicians and journalists have made paid trips to China—for example, during the *People's Daily* annual BRI media summits. So far, the economic impact of Zeman's policy orientations have failed to materialize.

"Where are the huge investments coming from the Belt and Road Initiative?" asks economist Lukáš Kovanda. Of the 230 billion Czech koruna (about \$10 billion) worth of contracts announced during Xi Jinping's 2016 visit, only about 3 billion koruna in contracts have been executed.<sup>104</sup> As pointed out by Richard Q. Turcsanyi,<sup>105</sup> major investments projects have benefited only Czech financial oligarchies and are unlikely to benefit the economy as a whole. In various surveys, one energy project was perceived negatively due to the government's association with CEFC.<sup>106</sup>

Figure 9: The Czech Republic's Impressions of the Belt and Road Initiative



Source: Survey by author, sample size of 61.

Similar to countries such as Portugal and Greece, there is a lack of interest in and knowledge of China within the Czech general public. Unlike the others, the Czech Republic does not have external problems, and has little migration and a relatively strong economy. Other areas affected by Chinese influence include public debates on China-related political matters, such as Tibet. In 2016, then minister of culture Daniel Herman agreed to meet the Dalai Lama privately in Prague,<sup>107</sup> but was rebuked publicly by Zeman, then prime minister Bohuslav Sobotka, and the leaders of the two houses of Parliament. In their joint statement, released by the office of President Zeman, the four highest-ranking Czech officials said: “Personal activities of some Czech politicians do not express a change of the official policy of the Czech Republic and we would regard [it] as unfortunate if anybody saw it as such.”

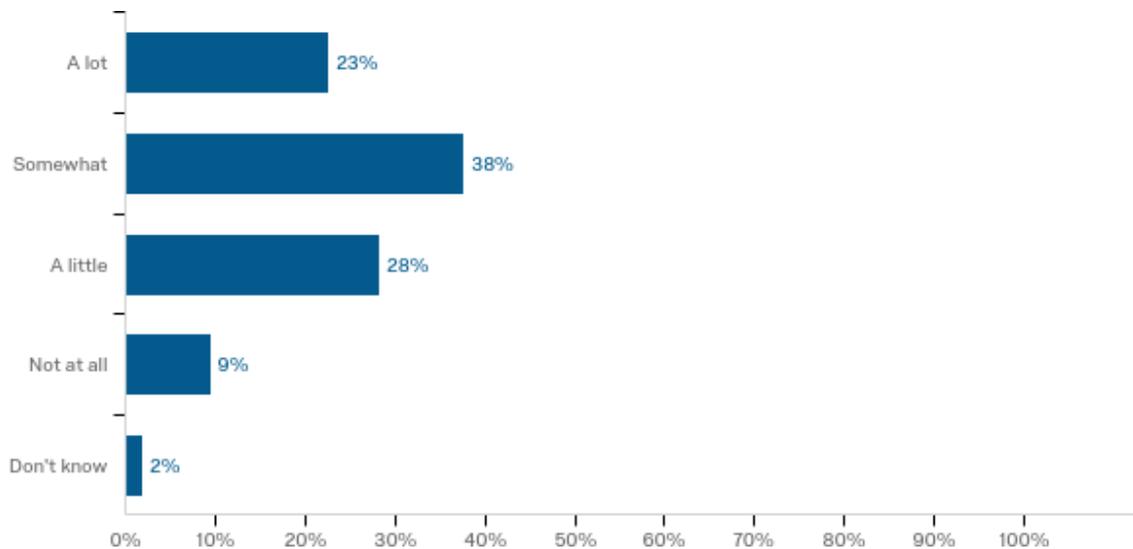
### Perceptions

The issue of Chinese influence also exists in a number of non-economic areas, especially academia and the media.

In 2017, following a proposal by Chinese Premier Li Keqiang, the Chinese Academy of Social Sciences opened a branch in Budapest—the China-CEE Institute.<sup>108</sup> Its aim is to study Eastern European perceptions of the BRI and 16+1. The China-CEE Institute “will build ties and strengthen partnerships with academic institutions and think tanks in Hungary as well as other Central and Eastern European countries.” For that purpose, the China-CEE Institute aims to encourage scholars and researchers in CEE countries to carry out joint research and field studies, organize seminars and lecture series, hold training programs for younger students, produce publications, and so on.

For example, this new think tank publishes reports on CEE-China relations, offers grants to visiting scholars, and organizes seminars on topics such as “Industrial Cooperation Between China and Eurasian Economic Union Under the BRI.” Meanwhile, on the 16+1 website, “CEE scholars” can apply for a grant through its secretariat—based in the Chinese Foreign Ministry in Beijing.<sup>109</sup> “In each joint research project, one Chinese institution shall serve as the leading party,” according to the website.

Figure 10: Who Will Be Most Important to the Czech Republic in Ten Years?



Source: Survey by author, sample size of 61.

On the media front, the ChinfluenCE project has been conducting thorough research on the subject of Chinese influence. Between 2010 and 2017, it analyzed 1,257 Czech media outputs in connection with political or economic issues. In an article published in April 2018, project

coordinator Ivana Karásková and her coauthors explained that the Czech media's coverage differs from post-1989 views. "The media often did not inform [its audiences] about China as such, i.e. its domestic politics or social issues. . . . rather[, it] informed [them] about China only in connection [with] Czech domestic politics."<sup>110</sup>

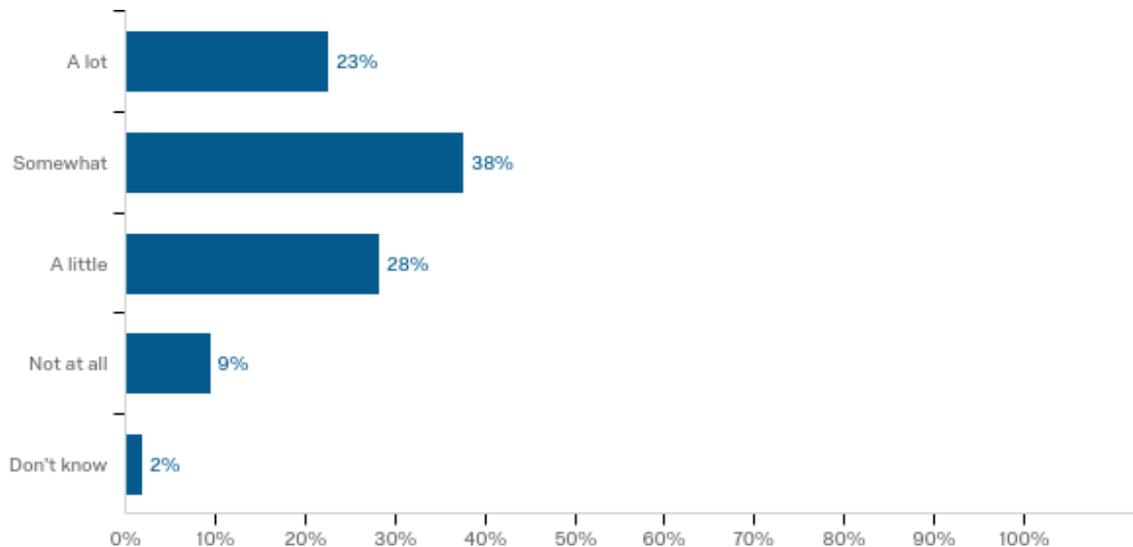
Judging from media reports, "China became portrayed not only as a business opportunity, but as a normative model," they wrote.<sup>111</sup> CEFC has invested in Empresa Media, which controls TV Barrandov—an "alternative" media outlet that often interviews Zeman. Media experts also posit that, unlike Russia's approach to influence, China aims to influence the elites rather than the general public.

The result is a somewhat mixed picture, with journalists and academics interviewed for this paper offering a strongly critical view of Zeman's pro-China stance.

Unlike the other case studies, the Czech Republic has had a vibrant debate, with public intellectuals and journalists willing to discuss the issue of Chinese—and Russian—influence in their society. As in many CEE countries, people have a much better image (or no image) of China compared to Russia. Unlike the latter, which has been meddling openly in the local political lives of these countries, China is seen as a power trying to do business with the region.

Ye Jianming's detention in China, announced in March 2018, has been a disservice to the relations between Czech Republic and China, and a blow to Zeman himself. Although China has managed to enter the country quickly, the new Czech government appears to be rethinking its embrace of both China and Chinese investment.

Figure 11: How Much Has China’s Activity in the Czech Republic Impacted Czech Foreign Policy?



Source: Survey by author, sample size of 61.

## Serbia: The Open-Door Balkan Space

As a non-EU member, Serbia claims to have become one of China’s best friends in Europe. Beijing has engaged in a number of massive projects in the Balkans, although the most high-profile one, the Belgrade-Budapest high-speed railway, has failed to materialize so far.

China’s relationship with Yugoslavia had ups and downs from 1949 on. Originally, Marshal Josip Broz Tito, leader of Communist Yugoslavia, of which Serbia was a constituent republic, wanted to recognize the People’s Republic of China but was rebuffed by Mao Zedong because of Tito’s split with Stalin. Tito waited until 1977 to visit Beijing for the first time.

As China’s relations with Albania and its leader Enver Hoxha started to deteriorate, Yugoslavia—and subsequently Serbia—became the partner of choice, giving China an entry point into Southwestern Europe. The relationship continued to be smooth through the 1980s (Tito died in 1980) and 1990s, well into Slobodan Milošević’s presidency. Following the civil war and the breakup of Yugoslavia, Milošević visited China as Serbian president in 1997 and earned China’s diplomatic support two years after the Dayton peace agreement. This breakthrough was seen as important in Sino-Serbian

relations. Beijing was keen to support Belgrade's view on Kosovo, reflecting its own situation vis-a-vis Taiwan, and even Hong Kong, under the "one country, two systems" principle.<sup>112</sup> "Just as Serbia supports the one-China policy, China supports Serbia as its best and most stable friend in southeastern Europe," Serbia's then deputy prime minister Božidar Đelić said in Beijing in 2009. Serbia would later receive Beijing's support against EU pressure to recognize Kosovo's independence.<sup>113</sup>

Another serious event brought China and Serbia even closer together: On May 7, 1999, five U.S. Joint Direct Attack Munition (JDAM) guided bombs, part of a NATO operation, hit China's embassy in Belgrade, killing three Chinese reporters and leading to outrage in Beijing.<sup>114</sup> Although the U.S. administration stated that this strike was accidental, there have been ongoing doubts in China, with many feeling that it was an intentional act on the part of the United States.

### Economic Relations

The Serbian government, which has been knocking on the EU's door for some years without much success, is now turning to China as an economic partner. "It would not be immodest or wrong to call Serbia China's main partner in Europe," stated Minister for Construction Zorana Mihajlovic.<sup>115</sup> As it tries to identify opportunities in this formerly troubled region, Beijing is more than willing to engage economically with Belgrade, which is not averse to "state-led decisions, with the politicization of investment, subsidy and contract decisions, rejecting the EU's model of open and transparent bidding procedures."<sup>116</sup> Since 2017, the two countries have abolished visa requirements and stepped up political cooperation.

Trade between China and Serbia tripled between 2005 and 2016, to \$1.6 billion, but it is a very unbalanced relationship: China exports \$1 billion in goods, whereas Serbia exports \$1 million of goods to China. Investments are rising because the Belgrade government is able to move quickly as a non-EU member.

Figure 12: Serbia's Imports From China in U.S. Dollars (2008–2017)



Source: <https://tradingeconomics.com/serbia/imports/china>

In 2016, while President Xi Jinping visited Belgrade for the first time, Prime Minister Aleksandar Vučić insisted that China would bring more jobs, improve living standards, and lift the country's economic growth. That same year, China's state-owned HBIS Group took over Smederevo's steel mill for 46 million euros, or \$55 million. The steel mill generates 5,200 jobs in Smederevo, a city of 100,000 that has depended on the mill for decades. Its previous owner, U.S. Steel, had sold the mill back to the Serbian government in 2012 for a symbolic \$1.

Chinese companies also are actively building infrastructure—for example, the Zemun-Borca Bridge, built by the China Road and Bridge Corporation (CRBC), using Chinese materials for 50 percent of the construction.

A local businessman who served as a subcontractor for the project explained that “as Serbia does not have the funds for such [a] project, having a Chinese company in the lead with financial backing from Exim Bank [the Export-Import Bank of China] with local subcontractors was part of the deal.”<sup>117</sup> There is no procurement process; the government decides on the arrangements. CRBC is also involved in building the Surcin-Obrenovac section of highway E793, which leads to a China-Serbia industrial park. During the summer of 2018, it was also announced that a Chinese company,

Shandong Linglong, would be investing \$1 billion in a new tire company from April 2019 in Serbia's Zrenjanin Free Trade Zone, with a target completion date of March 2025.<sup>118</sup>

Other Balkan countries have also benefited from Beijing's generosity: Montenegro received a \$500 million loan from the Exim Bank for its portion of the highway, and Macedonia was offered a \$580 million loan in 2013 to help build its own highway.

Meanwhile, China Pacific Construction Group, one of China's largest construction companies, has begun building an expressway between Montenegro and Albania.<sup>119</sup> In January 2018, Vučić—who became Serbian president in 2017—called on China to invest in RTB Bor, a copper miner and smelter.<sup>120</sup>

It is hard not to notice China's physical presence in Belgrade. First, there are more Chinese nationals than in most European cities. Many are tourists; businessmen; or employees of major Chinese companies, such as Huawei, a private Chinese company with Chinese government ties, and a very visible presence in Belgrade (as in other countries, it has been supplying telecommunication equipment to government entities), or Bank of China, which has opened a representative office there. China North Industries Group Corporation Limited (Norinco), a company directly under the supervision of the People's Liberation Army, is also represented in the city but operates mainly in Albania, Macedonia, and Montenegro.<sup>121</sup> The no-visa policy for Chinese visitors has been a major factor in encouraging their increased presence.

China has not yet bought up the Balkans. In fact, the EU's structural funds in the form of grants are larger and cheaper than Chinese loans, but politics—and poor governance on the part of some local politicians—play a major role in favoring China. The Brussels grants come with strings—rules often unwelcome by the political elites of the Balkans. The EU bureaucracy can be slow—a problem when governments try to move fast to gain electoral capital—hence the success of the Chinese model “aligned with local political cycles,” as China expert Michal Makocki put it.<sup>122</sup> Ironically, the six Balkan countries still are hoping to join the EU in the not-too-distant future.

### From 16+1 to BRI

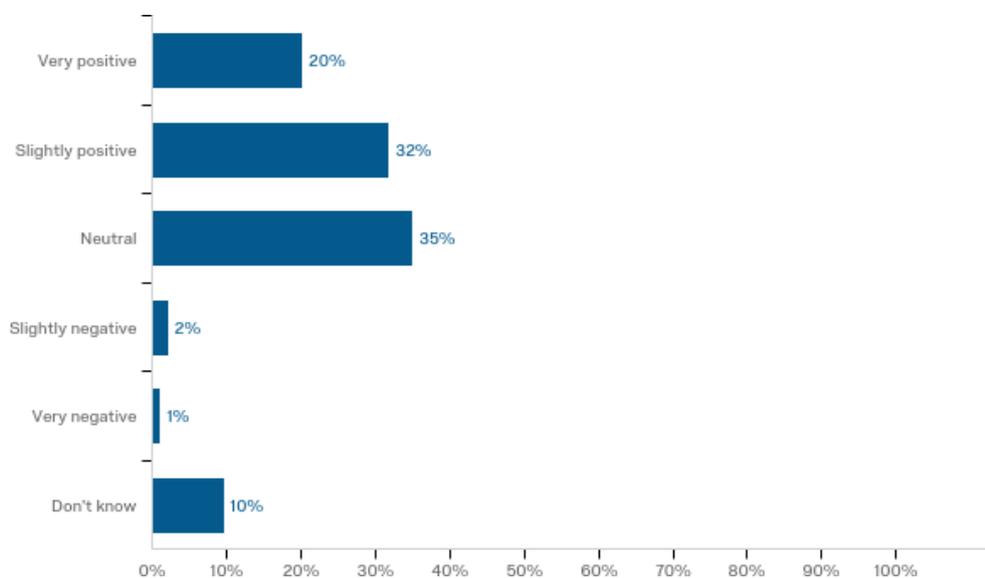
In addition to trade, recent statements by President Vučić imply a growing political relationship between China and Serbia. In late 2018, President Xi Jinping will pay his second visit to Serbia as China's top leader. It will be a statement of China's strategic interest for Southeast Europe, where it has been building a strong presence. With an important presence in Greece, China now aims to

open a transport route through Central and Southeast Europe, and south all the way to the Mediterranean Sea. To the north, China's projects include a rail corridor; an investment bridgehead; and the building of a transport infrastructure network in Central, Eastern, and Southeast Europe. The Balkans have become a top priority for China's BRI, on which 16+1 meetings now center, even though most projects over the past few years have been the result of strong bilateral links—for example, between China and Serbia. "China sees the Balkan countries as potential EU members, which could be of utmost importance," said Sonja Licht, who chairs the Belgrade Fund for Political Excellence.<sup>123</sup>

Unlike in Central Europe, the role of Russia in the Balkans is also a factor. Moscow has been a strong supporter of Serbian policy, especially vis-à-vis Kosovo. Moscow's main purpose is to keep Serbia away from NATO, and possibly the EU.<sup>124</sup> Russia wants to remain the largest supplier of energy to Serbia. The Russian leadership has remained highly influential with successive Serbian governments. In this region, a light China-Russia collaboration is not impossible, as suggested by the creation of a rather opaque Council of Economic Cooperation With Russia and China chaired by former president Tomislav Nikolić, an ally whom Vučić persuaded not to run for president in 2017.

Figure 13: Serbia's Impressions of the Belt and Road Initiative

What is your impression of the Belt and Road Initiative?



Source: Survey by author, sample size of 112.

## China's Soft Power in Serbia

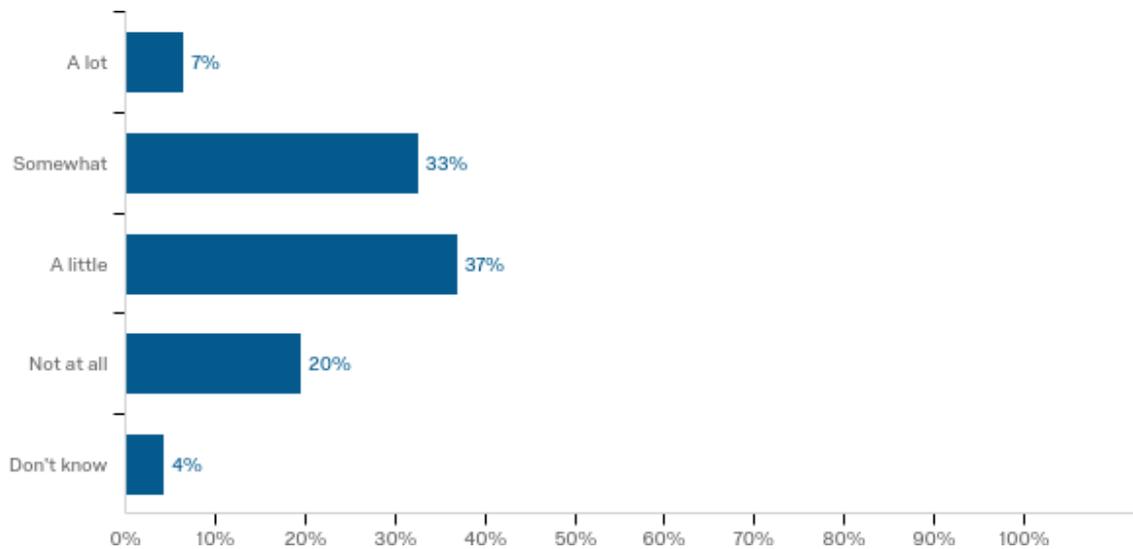
As in many countries, China has been inviting numerous Serbian journalists, especially at BRI-related events. “Everything to do with China is treated and covered positively in government circles and in the Serbian media,” said Jelena Milić of the Center for Euro-Atlantic Studies in Belgrade.<sup>125</sup>

There are active Chinese language schools, including at the two Confucius Institutes in Belgrade and Novi Sad University.<sup>126</sup> A new massive eight-story Chinese cultural center is under construction on the site of the bombed Chinese embassy. Despite the increased presence of Chinese nationals in Serbia, China is still seen as a remote country, with little cultural appeal to young Serbians, who are emigrating to Western countries in large numbers, driven away by the lack of job opportunities at home. Perhaps out of frustration over past specific Western policies, many Serbians have become somewhat anti-Western, favoring closer links with powers like Russia and China.<sup>127</sup> “They see China as a counterweight to the system,” said Ljiljana Smajlovic, a journalist and former editor of *Politika*, a major newspaper in the Balkans.<sup>128</sup> Although it is hard to detail China's influence on Serbian political elites, there is undoubtedly a shift in a society still recovering from its long period of war.

China's growing opportunistic interest in Serbia has been described as a form of “neo-colonization” by a local observer.<sup>129</sup> President Vučić said otherwise: “This friendship [between China and Serbia] has been demonstrated, proven and confirmed in the most difficult moments through Serbian history, and we are grateful to the people of China, its leadership, headed by President Xi Jinping, for the support it provides to Serbia, our people and citizens.”<sup>130</sup>

## Perceptions

Figure 14: How Much Has China’s Activity in Serbia Impacted Serbian Foreign Policy?



Source: Survey by author, sample size of 112.

Serbia’s special situation as a European country outside of the EU—with an uncertain path toward membership—has made it a special target for outside major powers. Russia is one of the most obvious ones, but China is increasingly active.

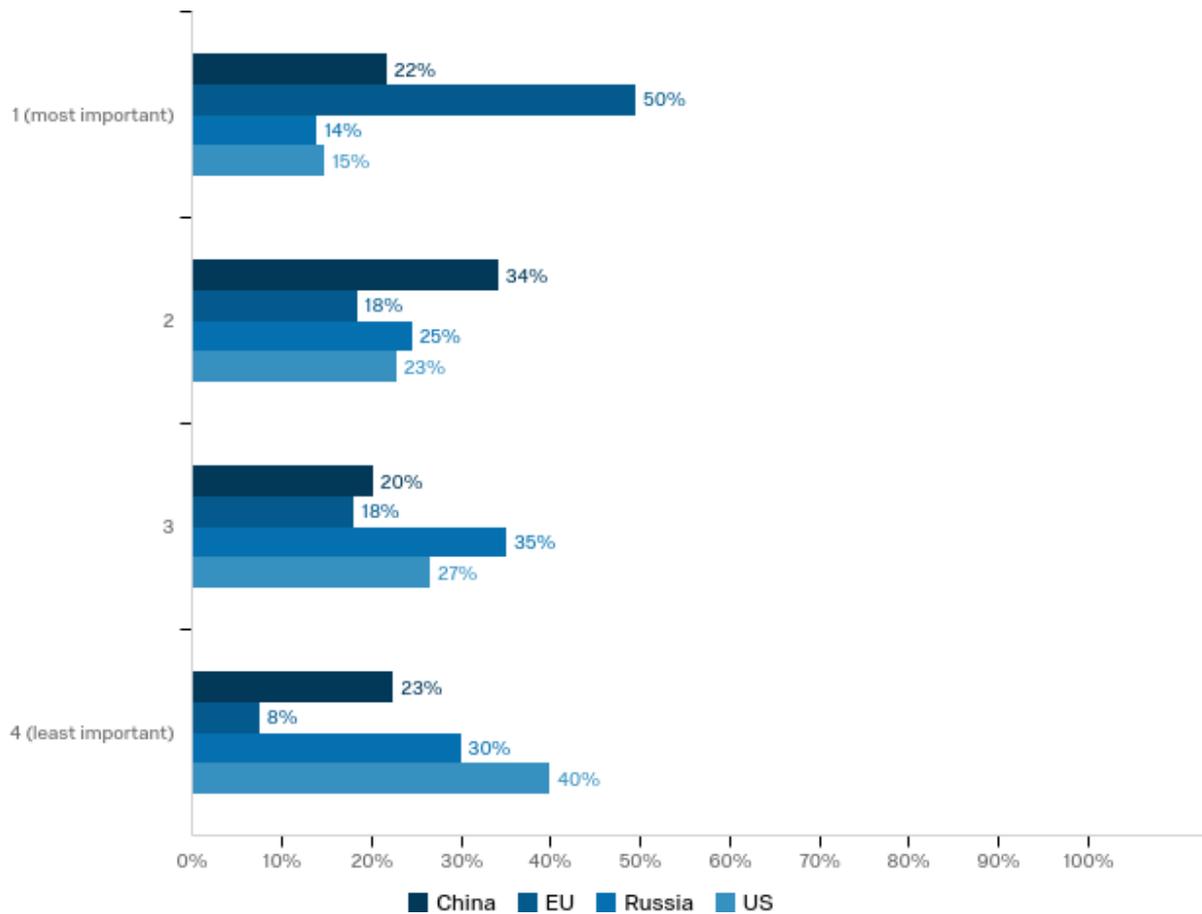
As analyst Milos Popovic wrote in his report for the Belgrade Center for Security Policy (BCSP), Serbian foreign policy and security policy remains unsure, especially when it comes to the concept of “military neutrality” and the scope of Serbia’s ties to Russia.<sup>131</sup>

In a survey conducted for BCSP in 2016–2017, Popovic asked respondents what they thought of the major powers and their influence on Serbia. China ranked second (after Germany) among “credible investors,” ahead of the United States, Russia, and the EU as a whole.<sup>132</sup>

The general public does not seem to have strong views on the domestic situation in China; they see China in the Serbian context. International media reports are sparse, and Serbians seem focused on the recovery of their own country rather than on geopolitics. Most perceive China as a friendly country that has come to invest in the (slowly recovering) Serbian economy.

In the Balkans, China has been involved, not just economically, but also in the fields of diplomacy, culture, universities, think tanks, and even political contacts.<sup>133</sup>

Figure 15: Who Will Be Most Important to Serbia in Ten Years?



Source: Survey by author, sample size of 112.

“Soft power doesn’t quite work in Serbia,” a former government adviser said. Still, China is building a massive cultural center in Belgrade on the site of the former Chinese embassy, which should be completed in 2018, in time for Xi’s upcoming state visit.<sup>134</sup> Where does that leave China-Serbia relations? Vuk Vuksanovic, an astute observer of history, estimates that the Balkans is “an inroad into the heart of Europe.”

He recommends that the EU—whose geographical, economic, and social ties with the region are incomparably stronger than those with China—should engage Serbia and its neighbors.<sup>135</sup> As he puts

it, “the European Union should send a strong political message that these countries will join the union eventually, to avoid fomenting insecurity that plays into China’s hands.” However, there are concerns—especially in Berlin—that China will use the Balkans as a new entry point into the European market and try to promote its own political model in countries with weaker governance as opposed to the EU model of liberal democracy. For the time being, the two countries are strengthening their relations: during his visit to Beijing on September 18, 2018 President Vučić signed a \$3 billion package of economic and military purchases, that will, according to a Balkan Insight report, “boost China’s growing influence in Serbia.”<sup>136</sup> The country has evidently become an outpost of China on the European continent.

## Conclusion: Europe’s Dilemma Toward China

From Asia to Africa, the Middle East, and Europe, China’s international drive is already impacting on many countries. It would be easy to envisage long-term connectivity dimensions should Beijing succeed. With a domestic impetus in mind (absorbing industrial capacity and capital surplus), the Chinese regime wants to build new networks—notably one running through Central Asia to Europe and another across the oceans from China’s coastal regions all the way to Europe via the Mediterranean Sea. New financial mechanisms and institutions that China initiates will also play a significant role, including the Asian Infrastructure Investment Bank, the Silk Road Fund, and powerful Chinese State banks like the China Development Bank and the China Exim Bank.

In an environment where Chinese funding dominates in some markets—Balkan countries for example—there is a good chance that Chinese companies (both state-owned and private) will have a competitive advantage in targeted areas. The Digital Silk Road, which aims to connect countries along the maritime and terrestrial routes of the BRI through telecommunication networks, is another tool that gives China a key advantage over its competitors.

What we found in Portugal, Greece, the Czech Republic, and Serbia is shifting perceptions, usually in China’s favor. Common characteristics among the four countries include a growing Chinese business presence, significant investment, a trade surplus, stronger and better organized Chinese communities and expatriates, a set of cultural/media activities, and an increasing bond between Beijing and each individual government.

Most of these countries have, to a large degree, accepted that China has become a bigger player in their economies and societies. In some cases, citizens—lacking debate and information—have

acknowledged the consequences on their national governments' foreign policies and the collusion of their political and business elites with China's interests. Occasionally, politicians have declared a readiness to partner with China, despite challenges regarding labor and individual rights, cross-cultural management issues, and environmental concerns.

In some cases, the presence of Chinese contract workers brought into another country to implement a Chinese project has raised eyebrows locally and could eventually lead to resentment or conflicts. Chinese loans to foreign countries are often conditioned on the use of Chinese workers—a practice that does not help the recipient countries deal with their unemployment issues. Chinese trade and investment practices tend to differ from those of many other countries. China is a centralized, one-party state with a large state sector in place. By and large, state-owned enterprises are run as government entities. Pragmatism is what China desires overseas, which is why it often favors less regulated countries such as Serbia, a non-EU member that, along with other Balkan countries and as long as it stays outside the EU, will remain outside the plan for foreign investors rolled out by Brussels.

It is possible that China might not be able to compete with the EU's structural funds, thereby leading to a possible dilemma for some of the countries in which it has invested heavily. To which camp do these countries belong? Are EU grants more important than Chinese loans? Is the Chinese model more attractive than EU bureaucracy? Above all, a number of EU member states are using China as leverage against European institutions, presumably under the influence of larger countries such as Germany and France. Many East and South European countries have found China an acceptable partner when it comes to relaunching their economies via trade and investment, with no strings attached. This fact does not necessarily ensure their support of China as an alternative model of international order, but non-EU countries—again, mostly those in the Balkans—are aware that such a possibility is available to them. In the long term, Serbia and its immediate neighbors might be willing to do so.

The EU countries covered in this paper are more evasive when it comes to switching sides. The Czech Republic, Greece, and Portugal are unlikely to sever ties with their European neighbors, with whom they share a common heritage, economic interests, and human ties. Overall, the recent ups and downs of the financial sector did not result in any dramatic reversal of alliances. China's growing presence highlights the key question of the EU's internal divisions between its western, northern, eastern, and southern sub-regions. Interestingly, China divides Europe in this manner in its official documents. The first category consists of the three large economies: Germany, France, and the United Kingdom; second, the Nordic countries, with views more or less aligned with the previous

group; next, the East and Central European countries, consisting of former members of the Socialist bloc, pre-1989; and finally, those South European countries that suffered the most from the 2008 euro-debt crisis due to the structural problems of their economies. Although members of the EU, the latter two groups are latecomers to the party and in some cases have both accumulated debt and frustrations.

From the larger northern European countries' points of view, China's ambition to achieve greater success in cutting-edge technologies and acquire European IT companies and brands began raising alarm bells in the past two years. Although Chinese investments in the EU have increased significantly since 2008, year after year the annual reports from the EU Chamber of Commerce in China have revealed the realities of market access in China itself. Some European companies have felt less welcome in China even as Chinese state-owned enterprises began taking positions all over Europe. The lack of reciprocity in the China market in such critical fields as telecommunications, construction, or finance has led to a growing debate over the issue of competition and national security, especially in Germany and Italy.

An image-conscious China is trying to deal with the consequences brought about by its ambitious, expansionist program. One of its goals has been to avoid public debates on China-related subjects in foreign countries, including those described in some of these case studies. As China's presence becomes more obvious, debate will increase and citizens will begin identifying themselves with one group of investors over another. In some cases, this process has already started: quite naturally, executives or employees of Chinese companies in these countries feel obliged to speak positively of their employers (sometimes with no particular knowledge of China).

As China becomes a global actor with ambitions beyond the geoeconomic sphere, the rest of the world—including Europe and possibly the United States—needs to assess this new situation. China perceives its relationship with the United States as a competitive one, even though the ongoing U.S.-China trade war under the Trump administration may ultimately lead to a Sino-European rapprochement.

Instead of engaging in the well-known divide and rule game, Western nations should engage in creating an alternative model that connects people and countries while preserving the international order, including high-level standards for infrastructure and economic development. They should not close the door to China's initiatives (such as the BRI) but rather engage in a negotiation with Beijing through the G20. As for the EU, it should offer its South and East European member states new routes of economic development. This offer should also include the preservation of European values,

which the EU has been particularly successful in underlining over the past several decades. Faced with many challenges, including China's rise within European borders, the EU should also invest in its own digital infrastructures and information technology, in addition to launching new initiatives to enhance the connectivity of the Eurasian region<sup>137</sup> and create more jobs and growth in the key sectors of tomorrow.

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