

EU–China—Failed Prospects of Win–Win Partnership



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Abstract The aim of this chapter is to analyse the unique, complex and globally important relationship between the EU and the People’s Republic of China (PRC) that just marked forty-five years of diplomatic ties. During that period, the relationship between the two biggest global traders underwent different phases, changed contents, aspirations of the two, as well as views of each other, as both sides had gone through substantial internal changes. Chinese initiatives ‘16 + 1’ and the Belt and Road Initiative, strategic in nature, boldly stepped into EU soil challenging Brussels economically, politically and geopolitically. ‘Wolf diplomacy’ and ‘mask diplomacy’, together with human rights issues in Xinjiang and Hong Kong that led to mutual sanctions, further eroded relations. How and why EU and PRC arrived at their current position and whether it is realistic to expect a new mutually acceptable cooperation platform to be founded between them. Or, on the contrary, we should be prepared for even harsher misunderstandings and a further distancing of the two to take place. Our reasoning leans towards a hypothesis springs from their substantially different values, history and strategic goals, as well as perceptions of themselves, of each other, and of the global economic and political order. Their mutual misconceptions and misunderstandings, and consequently, disappointments, originate from the same source, as fruitful trade and investment cooperation could not fill that gap.

Keywords EU-China relations · BRI and “16/17 Plus 1” versus EU Connectivity Strategy and Berlin Process · Global actors · Multipolarity · Strategic partners and competitors

1 Introduction

When launching the Belt and Road Initiative (BRI)—that later became incorporated not just in annual blueprints of China’s government, but also into the People’s Republic of China’s and the Communist Party of China’s Constitutions—China was

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met with a cold response from the European Union, which perceived this course of action as a strategic challenge and a controversial business initiative. As the BRI absorbed the previously initiated “Sixteen plus One” platform for cooperation between China and sixteen “Central and Eastern European Countries”, eleven of which were EU member states and five on the path to join the European Union, distrust and sharp criticism only mushroomed. Business deals offered by China to “the Sixteen” included business practices contradictory to the EU standards and regulations, which at the same time promoted the Chinese way of performing business deals and its specific business culture that included lack of transparency, competition and procedures, and high possibility of corruption. China has only verbally complied with the EU’s concerns, while practice continued exhibiting the same pattern of behaviour.

At the same time, China daringly stepped into the economic and political yard and “core” EU market with a range of acquisitions of technologically advanced or strategically important industries, including strategic infrastructure, placing record high outbound foreign direct investments within the EU market (in 2017, the sum was enormous, specifically as a result of the acquisition of the Swiss *Syngenta* for US \$43 billion, but the remaining FDI into the top EU economies also grew significantly, reaching a new record of US \$38 billion¹). Brussels’ abrupt awakening included new legal procedures and the new foreign investment screening mechanism in sensitive areas, such as high-tech and strategic infrastructure. Additionally, there came the adoption of the *Connectivity Strategy between Europe and Asia in September 2018* and *The EU-China strategic outlook in 2019* that named China “a systemic rival, as well as a partner”.²

During the COVID-19 pandemic outbreak, a new chapter of animosity between the two was created with China’s “mask and wolf diplomacy” and the EU’s strong reaction. This new reality that does not even remotely resemble the beginning phase of their relationship and holds even lower expectations from this cooperation, affects many more countries beyond the two partners, if not the whole world. The European Union and the People’s Republic of China (PRC) are the two biggest traders in the world—every day they trade with each other for 1.8 billion Euros³—and that fact makes their trade relations, as well as general relations, highly significant in global terms. For the PRC, the EU is the second-biggest foreign market (recently the ASEAN took the leading position), and for the EU, China is the second-biggest trading partner, just behind the USA. We will try to analyse how and why they arrived at their current position and whether it is realistic to expect a new mutually acceptable cooperation platform to be founded between them. Or, on the contrary, if we should be prepared for even harsher misunderstandings and a further distancing

¹ Mitrović (2019), p. 157.

² European Commission and HR/VP contribution to the European Council (2019). Available at: <https://ec.europa.eu/commission/sites/beta-political/files/communication-eu-china-a-strategic-outlook.pdf>.

³ DEUC (2020). Available at: https://eeas.europa.eu/delegations/china/78510/markig-45-years-eu-china-diplomatic-relations-time-global-crisis_en.

of the two to take place. Our reasoning leans towards a hypothesis spring from their substantially different values, history and strategic goals, as well as perceptions of themselves, of each other, and of the global economic and political order. Their mutual misconceptions and misunderstandings, and consequently, disappointments, originate from the same source, as fruitful trade and investment cooperation could not fill that gap.

2 Early Stages of Relationship and Mutual (Mis)perceptions

The year 2020 marks forty-five years of diplomatic ties and twenty-two summits, including the last one held online,⁴ of the unique and globally important relationship between the EU and the PRC. During that period, their relationship underwent several different phases, marked with changing contents, aspirations of the two and different views of each other. Simultaneously, the two had gone through substantial internal changes. The first phase was defined by the strategic decision of the EEZ (of nine members) to welcome the People’s Republic of China onto the global scene and accommodate its access, especially after the “reform and opening-up” policy started, while China appreciated such positioning and much-needed economic inputs, especially equipment and technology coming from the Western Europe.⁵ That period, marked by mutual benevolent expectations and obvious strategic interests, ended on 4 June 1989, as thereafter the EU enforced comprehensive sanctions against the People’s Republic by suspending mutual high-level visits, aid and loan guarantees and joint ventures, and by ceasing their military cooperation, sanctioning the export of weaponry and any high-tech products with a possible military use. Though the PRC’s strategic importance for the EU eroded due to the dismemberment of the USSR and the Eastern Block, China’s rapid economic development and its rising role as a leading emerging economy led to the lifting of all the sanctions by 1994,⁶ except those regarding military technology. In 1998, China and the EU launched their annual summit mechanism and in 2001 the two sides established a full formal partnership. China’s rise to a position of a major global manufacturer of cheap industrial consumer products and a trade powerhouse, positions that strengthened even further after its accession to the WTO in 2001, helped advance their relationship to the level of major trade partners and eventually led to a strategic partnership in 2003. In September 2003, the EU published a policy paper entitled “A Maturing Partnership: Shared Interests and Challenges in EU-China Relations”, expressing the political

⁴ EU-China Summit: *Defending EU interest and values in a complex and vital partnership*—Press release by President Michel and President von der Leyen.

⁵ While political dialogue between the EU and PRC started in 1975, formal relations were established under the 1985 EC-China Trade and Economic Cooperation Agreement.

⁶ Sources from the PRC’s MOFA claimed, though, that ten of the seventeen members have never enforced sanctions in practice.

assessment that EU-China relations had entered into maturity that led to the proposition of a “comprehensive strategic partnership” level of relations with China. In 2003, China’s first policy paper on the EU⁷ emphasized the global trend towards “world multi-polarity and economic globalization” and named the EU “a major force in the world”.⁸ Complementarities in economy, especially trade and technology transfer, and to some level, the political arena, were perceived: the EU’s developed economy, advanced technologies and copious financial resources, and China’s robust economic growth that required foreign advanced knowledge and investments, a huge market and abundant and cheap labour, and an existing disregard towards the waste of energy and pollution, all close to the hearts of major international corporations. This period of their relationship lasted until 2008–2009 and the global economic crises that mercilessly struck the EU and the Eurozone.

Though later questioned by many,⁹ a strategic partnership between the EU and the PRC has a very strong rationality—complementarity in economic exchange, with booming interactive institutionalized links, ranging from political to academic ones, the two trade super-powers and major global entities should coordinate their agendas and work together when dealing with the most dangerous security challenges and persistent global problems when performing global governance—in accordance with other major powers. Additionally, EU officials have continually and actively insisted on the common interests that allegedly “naturally” bond the EU and China when dealing with the numerous problems that have been challenging the globalized world,¹⁰ emphasizing the importance of joint engagement and coordination. Such an approach expressed, on the one hand, the EU’s determination to keep China engaged, and on the other, it was creating a blueprint for a deepening relationship. On their list of practical frameworks were—poverty alleviation, anti-climate change measures and sharing the costs of existing environmental protection problems, promotion of regional security and maintaining the safety of commercial water-ways (such as joint anti-piracy measures in the Gulf of Aden). In spite of all the shortcomings of the strategic partnership between the two, it was rather rational and expected to see the EU and the PRC pair up as collaborators in dealing with numerous complex global issues and common challenges. When relying on each other and pushing for adopted agenda realizations major powers contribute to more efficient global governance and perform according to their positions’ expectations.

On the other hand, even before their relationship was upgraded to the comprehensive strategic partnership level,¹¹ numerous deep and long-lasting problems appeared and blurred the anticipated deepening and strengthening of the relationship. From the Chinese point of view, EU lacks some basic features to be a qualified global

⁷ China’s policy paper on EU (2003). Available at: <http://www.chinamission.be/eng/zywj/zywd/t1227623.htm>.

⁸ Linchu and Yixiang (2005).

⁹ Maher (2016).

¹⁰ Maher (2016).

¹¹ *EU-China: Strategic Action Service* (2013). Available at: http://eeas.europa.eu/china/docs/20131123_agenda_2020_en.pdf.

actor, as it is still facing an “identity dilemma” of whether it is a super block or a group of nation-states each of which has its own (retained) negotiating power. In spite of its initial deep respect for the EU, China has had difficulty dealing seriously with the EU as a global partner, after it came to the disappointing conclusion that the EU is unable to play an acceptably sufficient global role and therefore meet China’s expectations. In the eyes of Beijing, the EU, through performing its global role as a major power, failed to give its contribution to the realization of China’s strategy of a “multi-polar world” that China had expected a lot from. The EU failed to deliver exactly because of this “identity dilemma” and its other key deficiencies, including the fact that, when it comes to the EU’s security, it relies predominantly on NATO and the USA. Essentially, there has always been another crucial undermining element of their relationship. At the very core of this relationship is the fact that they are not each other’s most important global partner, as for both of them that partner is the USA.

Another side of this is that the Chinese economic miracle has benefited enormously from the EU’s integrated market, while during that ride it has been depended on the US dollar, as the RMB yuan was pegged to the US dollar until 2005. The EU’s single currency did not exist at the time of the beginning of China’s “reform and opening-up policy” realization. These are important aspects of the EU-China relations that include the USA as an invisible, but always present, third participant, that has a stranglehold on the relationship between the two sides. Furthermore, in 2003 when there were several unsolved issues burdening the relations, the EU proved again that it is not able to be trusted as an independent partner, as in spite of the promises made by several EU states to Beijing that the PRC would be recognized as market-economy within the WTO, the EU did not act accordingly. Again, in the same year, Brussels promised to lift the sanctions imposed on China after the Tiananmen Square events, but then, due to pressure from across the Atlantic, as well as from some proxy messengers within the EU, it changed its position and did not deliver the promised motion. That was probably the point when Beijing was pushed in the direction of redefining its position towards, having realized that the Union itself was not that important, and concluding that the PRC should focus more on bilateral relations with EU members, particularly the most important ones, starting with the UK, Germany, France, Italy, Greece, Hungary, etc., which were among its biggest economic and political partners or offered some stronghold points for China within the EU. From the opposite perspective, we could observe that EU member states’ behaviour exhibited a somewhat similar pattern: they used Brussels’ institutions when there were discomfort issues to settle that could spoil their fruitful bilateral economic cooperation with the PRC, but when it came to profitable deals with Beijing, they were too arranged bilaterally. China realized that model-behaviour very clearly and incorporated it into its own successful pattern of conducting deals with EU countries.

Again, due to its own misconceptions of its role and rock-solid unity, Brussels continued to preach to China on “universal values”, e.g., “European values”, while dealing with it as it were a dependent Third World country that needed to be transformed accordingly. Actually, China acknowledged a certain EU’s cultural influence of the EU on Turkey, in the African Mediterranean area, and in Central Asia, but

concluded that, due to its internal problems, the EU had failed to deliver on all those strongly worded slogans, platforms and agendas. As usually, overused tools become less effective over time. When it comes to criticism without consequences, there were plenty of occasions regarding China's acts in the South China Sea, Hong Kong, Xinjiang, etc.¹² Most notably, Brussels' weakness was exposed when some member states close to China blocked resolutions condemning China's behaviour in particular matters of concern in the European Parliament and in the UN's relevant bodies.

Even though it seemed as if the new millennium was supposed to bring to bear the long-awaited momentum for a strategic partnership between the two partners—and it did bring additional might and operativeness to the EU—to prosper and contribute to more successful global governance, troubles were building up in their communication and overall relations. The EU, its institutions, political leaders, academics and citizens of its member states as well as and their leaders, seemed eager to express the new capacities of the EU—from the monetary aspect, to security and strategic orientation—which were to affirm the 'EU pole' in the world. On China's side, its accession to the World Trade Organization (WTO) unleashed the huge potential of its global involvement, based on its gigantic industrial output and the resulting global trade role, followed by huge financial reserves and investment might. The two expected from each other, and were expected by rising economies, to build on the realization of their complementary advantages, reciprocity and mutual gain. Nevertheless, the period that followed proved to be filled with various issues making their interaction less strategic and more troublesome and frustrating for both sides. Frustrations mostly emerged from disappointment built on false expectations, stemming from one side's misconceptions of the other and the incapability to fulfil its own strategic aims. Looking from another angle, it could appear that those deeply rooted causes of differences were actually the basic characteristics of the pair—their values, aims, strategic objectives, the ways they perceived global order and the international political and economic order in the future, etc.

When it comes to the EU, its readiness to grasp the position of the most advanced unified market and strategic power was soon to be proved an unrealistic expectation due to its internal incapacity to grow in that direction. "Multi-polarity", apparent at the global scene, that was created at the beginning of the new millennium by a growing number of the new rising powers and emerging economies, and their booming cooperational frameworks, was an obligatory phenomenon to be noticed by the existing powers, as that observation would enable them to assess the reality of the global scene and to define their consequentially new or adjusted interests. These interests should shape the positioning of the existing powers towards potent "newcomers" and should be transformed into specific policies and acts. It seems that the EU has failed to notice the change in China's power, which was based on the results

¹² After the latest EU-PRC (virtual) summit (June 22 2020), European Commission President Ursula von der Leyen and European Council President Charles Michel criticized China and threatened with "very negative" consequences if it pressed on with the security law in Hong Kong and actions against Uyghurs in Xinjiang, but no sanctions or other actions have occurred. In fact, it was only Sweden among the 27 member states that proposed sanctions over deteriorating developments regarding Hong Kong.

of its rapid global economic rise and the influence built on it. That oversight was partly caused by divergent interests of the member states and primarily Germany's and UK', France' and Italy's (and much later by the Central, South-Eastern and Mediterranean members) push towards ever-deeper engagement with China without a previous strategic consideration of that engagement on the basis of China's newly acquired abilities and geo-economic interests. Additionally, it was caused by the EU's fundamental determination to follow and wait for the US's lead, which in this case also came very late, during the final days of the Obama administration. Above all of these factors, and maybe because of them, is the fact the EU has been struggling with its internal insufficiency and other problems, which have hindered it from dealing properly with outside challenges. As a result, the EU was seen and treated by China as "a failed pole" and an inadequate global actor, and a thrown-away opportunity for action based on the common ground on the global multi-polar scene. Simultaneously, China was developing its global agenda and shifted its resources to transform these strategies into reality. Due to its rise and multiplied forceful attributes of power, that agenda has been affecting the whole world, including the self-trapped EU.

As the EU kept on behaving as an unproductive rhetorical power that lacked efficient action, it provoked a strong reaction in China. There was a growing frustration in Beijing over a lost possibility of multi-polarity backed by the EU as its "support pillar", and over the EU's secretarial inefficiency alongside its political over-complexity. Furthermore, Chinese leaders found it disrespectful to be preached at from the self-righteous moral position of the Brussels, which did not recognize China's "exceptionality". At the same time, numerous actors within the EU's official and non-governmental spheres engaged in a very developed support network for different anti-PRC organizations.¹³ A powerful example of the misunderstandings between the two occurred during the French Presidency, when, in different European countries, various anti-China groups protested during the Olympic Torch ceremony. Its upsetting climax happened in Paris, where an anti-China protester attacked the Chinese para-Olympic torch-bearer. The Chinese side, including its population, was particularly offended by this and other similar incidents, as the Olympic Games were seen in China as a window to the world for China's great economic and social achievements that deserved respect from the international community. This led to the boycott of French products in China and the cancellation of that year's summit, which Brussels was astonished by.

¹³ Zayul (1959 to 2004), pp. 8–84. Available at: <http://tibet.net/1959/01/international-resolutions-and-recognitions-on-tibet-1959-2004/> (Accessed on December 5, 2020); Dutoit (2016), pp. 189–191. European Parliament. Resolution on the human rights situation in Eastern Turkestan (Region of Xinjiang) (1997). Available at: <http://www.radicalparty.org/en/content/100497-resolution-human-rights-situation-eastern-turkestan-region-xinjiang>

3 “Sixteen/Seventeen Plus One” Framework of Cooperation and the BRI

The world economic crisis exposed that the EU has been suffering from serious crises: a structural crisis, a crisis of value and identity crises, and financial and economic ones—which coincided with China’s rise, and corresponding growing Chinese influence within the EU and Eurasia.¹⁴ With China’s inter-European regional initiative “Sixteen plus One”, the EU’s discomfort with China’s rapid advancement had become even greater. The rise of China has been accelerating and the country emerged from the global crisis with inter-regional and even global initiatives. The launch of the Asian Infrastructure Investment Bank, the New Development Bank (former BRICS’ Development Bank) and other financial institutions that have created parallel financial institutions, along with China’s heavy investment in European traffic and energy infrastructure, the EU bonds, and real economy in different sectors, the EU expressed significant discomfort regarding this “inverted FDI process”. Even beyond that, when major economic powers within the EU became founding members of the AIIB, Brussels remained passive and powerless. That passivity and ineffectiveness when dealing independently with its domestic problems independently and when dealing with challenges coming from the regional or global scene were too evident to China and helped Beijing’s awakening process towards viewing the EU through purely pragmatic lenses.

When in 2011, during the first Economic and Trade Forum between China and CEE countries in Budapest, China’s Prime Minister Wen Jiabao announced the new format of cooperation between the PRC and “Central and Eastern European countries”, it was an unexpected move for the requested sixteen European states and for the EU. Officially, the format was launched one year later, in 2012, at the Summit of Prime Ministers in Warsaw. However, the unexpectedness of the Chinese initiative did not make it easier for unprepared partners to get organized and capable of dealing with an old—and for many of them—willingly forgotten socialist-era friend that has meanwhile transformed into a global economic superpower with leadership ambitions. At the same time, the EU was challenged with deep crises of identity, which has, along with other recent challenges, shaken its unity and its economic model. The world economic crises basically exposed and expanded many of the EU’s systemic problems and made its assets more available to potentially interested in outside investors. The PRC, on the other hand, appeared to be on a rise and able to invest and add stimulating financial incentives as well as provide support to others, including major European and EU economies, struck by the world economic crisis and the Eurozone crisis. The EU seemed to be unaware of China’s strategies on European soil, and behaved as vaguely and ambiguously, as ever when it came to China’s growing economic strides forward in EU economies and other European economies, or across the globe. At the time when China initiated its new “China plus a region” cooperation platform, this time in Central and South-Eastern Europe, and called it

¹⁴ Sorroza (2011). Available at: <https://www.eurasiareview.com/04122011-is-the-eurozone-crisis-changing-eu-china-relations-analysis/>

“Sixteen plus One” or “Sixteen Central and Eastern European countries (CEECs)¹⁵ plus China”, it did not get much attention inside or outside of the region. The several years older Chinese rent of the two cargo terminals of the Piraeus Port near the Athens caught even less attention. Only later, Brussels’ institutions ostracized “Sixteen plus One” to a great extent, and its development into “Seventeen plus One”, when Greece joined the grouping in 2019, even more so.

Regarding the motivation of “the Sixteen” to take part in the initiative—especially of the eleven that had already become, or were to become EU member states—there was a very pragmatic element in their behaviour. Actually, the period of few years before, and during the occurrence of the world economic crises and the Eurozone crises, marked the period of disappointment in “New Europe” countries, as they were left in the cold, while invisible financial and trade borders of “old EU” reappeared. In fact, during the crisis all new EU member states were facing significant budget deficits, credit crunches and liquidity squeezes. The EU’s inadequate capability to deal with the different aspects of the crises was additionally exposed, while China advanced its new format for invigorating and promoting relations with sixteen Central and South-Eastern European countries. The PRC strategically focused on cooperation in the field of building of transport and energy infrastructure development, “industrial capacity cooperation”—or exporting its polluting, over-capacity industries, trade, financial sector, culture and education, and other projects that were conceived to construct new connectivity both among “the Sixteen” and between “the Sixteen” and China. Interest-based collaboration between investment and liquidity-craving CEE countries and rising China which was dispersing surpluses and looking for most favourable asset-acquisition, looked like a promising pathway of action for states in Central and Eastern Europe. Additionally, China’s motivation to invest in strategic infrastructure in South and South-Eastern Europe was based on its (over)supply-side capacity, and the evaluation that these sectors, especially traffic and strategic infrastructure, in Serbia, and in Greece and other CEECs, have been in poor condition, and could expect profitable growth after the upgrade. A relatively cheap and skilled local work-force was another incentive for China. However, their strategic importance was also a factor, as these countries are located on the crossroads of major inter-regional and intercontinental routes. The influx of Chinese funds into these countries announced a long-term strategy of Beijing to create an important grip on one of the most strategic placements of the European Continent.

Additionally, just before the Framework was initiated, China’s decade-long “Go Global” (*Zouchuqu*)¹⁶ strategy—that had just marked its 10-year jubilee—proved to be extremely successful. It has given a way to an increasing number of highly conspicuous figures of Chinese financial engagement all around the globe—beyond its traditionally strong economic engagement in Asia–Pacific, the PRC also became a

¹⁵ The sixteen countries, listed in alphabetic order were: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Macedonia, Montenegro, Poland, Romania, Serbia, Slovakia and Slovenia.

¹⁶ “Go Global” *Investment Strategy Needed for Chinese Enterprises* (2001).

big investor in Africa,¹⁷ too. But, important part of it had been unfurling on European soil, and in spite of the global crisis. In 2011, Chinese outward foreign direct investment (OFDI) spread to over 18,000 companies across 177 countries reaching the value of US \$2 trillion. While, unlike Western companies in previous waves of globalization, which were mostly focused on opening factories in foreign countries and off-shoring, Chinese corporations were focused on mergers and acquisitions (M&A). Chinese manufacturing corporations were oriented towards investing into several main sectors: shipping, agriculture, automotive, strategic infrastructure, technology and others, in order to develop new skills and new products, accept new forms of management and marketing and diversify their business. However, they were mainly investing in natural resources, especially energy and metal, as these accounted for 70% of China's total OFDI in the period from 2005 to 2012.¹⁸ When it came to Europe, China's focus on numerous portfolios within the mentioned scope of its interest became cheaper and politically more accessible due to the world economic crisis negative impacts on the EU. Beyond *Volvo*, at the beginning of the second decade of the new century, Chinese corporations became owners or co-owner or the *Kion Group*, *Putzmeister*, *Schwing* in Germany, *BP*, *Thames Water*, *Weetabix* in the UK, *CDP* in Italy, *Caixa Seguros* in Portugal, and others, including an arrangement with the Salonika Port worth US \$4 billion value similar to the one made with the Piraeus Port. During 2010, China's top officials announced interest in Greek rail-track infrastructure modernization, and similar projects regarding airports, shipyards and vessel maintenance, trade and tourism. However, these business deals, though part of China's global strategy, caused particular concerns within the EU, while the Chinese side expressed dissatisfaction with the level of openness of the EU market for FDI coming from China.¹⁹ The year when the "Sixteen plus One" platform for cooperation was announced, FDI coming from China into the EU surpassed those coming from the EU into China's market in value for the first time in their common modern economic history.²⁰ Chinese FDI into EU economies increased fourfold in the period from 2012 to 2014 and reached the value of US \$27 billion, but their impact remained modest regarding the relative size of these economies, and considering they still equalled just one quarter of the value of the EU's FDI in China. Nevertheless, Chinese FDI and other placements, along with the launch of the "Sixteen plus One"

¹⁷ According to the OECD data, Chinese investments have had the biggest impact in Africa where its direct investment amounted to nearly US \$51 billion a year since 2007. In proportion to the size of the economy, Chinese direct investments in Africa have been five times larger than in the rest of the world.

¹⁸ Gurría (2014). Available at: <https://www.oecd.org/china/china-go-global.htm>.

¹⁹ When visiting Greece in 2010 Chinese Prime Minister Wen Jiabao asked for "undisturbed access for Chinese companies" while announcing and making new business deals. Mitrovic, Dragana. Politics and Economics of the China Plus Sixteen Cooperation Framework, Serbian Political Thought, 2/2014, IPS, Belgrade, p. 20.

²⁰ According to *PriceWaterhouseCoopers*, in 2012, for the first time, OFDI from China outweighed FDI coming in from EU corporations to the Chinese market, for the first time. However, the cumulative value of these FDI made up approximately 1% of the recipient EU member-states' GDP, as well as of the unified EU's GDP.

initiative, alarmed the sceptics and magnified geopolitical concerns. A new phase of the relationship was also symbolically launched—China was not viewed through the same lenses in Brussels anymore, as China’s matured ambitions in Europe could not be ignored any longer. Obviously, China’s focus was also to become a major intra-European economic and political force, not just a remote trade partner and off-shoring market.

With the “Sixteen plus One” initiative, it looked like the time had come for China’s investments and other businesses to be shifted towards former socialist countries in Eastern and Southern parts of the EU and towards the Balkan states, on the (long) path to becoming EU members. Their previous common history, dating from the first days of the People’s Republic of China, additionally helped the initiative to proceed. Sixteen Central and South-Eastern European states as ex-communist countries had respective experiences of economic cooperation with China, including an important part of it happening at the beginning of the “reform and opening-up policy”, when they exported technology to China along with their initial experiences of the transitional process. What China needed, and got, was collaborative relationship with European countries which did not press China with ideological concerns, and were open to China’s initiatives and manners of doing business. However, the awakening of bilateral ties had occurred during the previous decade, and had been initiated by China. When Chinese President Hu Jintao visited Romania in 2004 the two countries established a comprehensive, friendly and co-operative partnership, while Xi Jinping visited Romania in 2009 in the capacity of Vice President, which was subsequently followed by other reciprocal visits that initiated the economic cooperation²¹ between CEECs and China, as similar cooperation was occurring between the PRC and Bulgaria, and especially Hungary, which was a hub for China’s economic presence in this part of Europe for a long time.

During the decade before launching the “Sixteen plus One”, China was also intensifying its economic and political relations with other former socialist countries in Europe, including Ukraine, Belarus and Moldova. While intense and close cooperation with Belarus and Ukraine had been developed, they were left out of the following grouping of the “Sixteen plus One”, due to the PRC’s respect for the related countries’ close ties with the Russian Federation and their geo-strategic importance for Russia. In 2010, China also revealed that it had acquired Greek state bonds, and that the *China Development Bank* had created a regional investment fund for the South-Eastern Europe. Hu Jintao visited Croatia in 2009,²² in the first highest-level visit from China to the so-called Western Balkans, and once more Chinese intentions to invigorate economic relations with the countries of the region were declared.²³ In 2010, Wu Banguo visited Serbia and announced the preferential funding as well as

²¹ “Chinese president calls for better co-op with Romania” (2011). Available at: <http://english.peopledaily.com.cn/102839/7568348.html>.

²² Mitrovic (2014), pp. 31–32.

²³ Hu: China to Further Ties with SE Europe (2009). Available at: http://www.chinadaily.com.cn/china/2009-06-20/content_9305867.htm.

the building of a bridge on the Danube in Belgrade (*Pupinov most*), the first bridge to be built by a Chinese corporation on the European soil.

Whereas relations with Western powers seemed to demand subordination, in their collaboration with China “the Sixteen” found themselves treated more as equal partners. This too prompted these states to feel inclined to promote their ties with China, in spite of the fear of this course of action getting in the way of their integration within the EU and the cooperation with the most powerful EU countries that—ironically—recognize and accept China as a vital partner. However, during the same year, a few other significant “made by China” business enterprises occurred. The first one was located in Southern Europe, in Greece, where an investment of US \$2.5 billion was made into renting the Piraeus seaport, the main Greek trade port that is strategically positioned between three continents: Europe, Asia and Africa, for 35 years by Chinese state-owned shipping giant *COSCO*.²⁴ *COSCO* also invested an additional 400 million Euros in upgrading and enlarging three container-terminals of the port to enable them to connect with South-Eastern Europe.²⁵ An additional collateral gain China got in this deal was a certain geopolitical influence. Since then, *PCT (Piraeus Container Terminal)* a wholly owned subsidiary of *COSCO Pacific Limited*, a world-leading container terminal operator, has been operating focused on upgrading the capacity of the port’s terminals by 30%.²⁶ Finally, *COSCO Shipping* bought 51% of Piraeus Port (OLP) in April 2016 for 280.5 million Euros (US \$312.51 million) in a deal with the HRADF, Greece’s privatization agency.²⁷ Another one was the first PRC’s state-owned corporation’s attempt to manifest its building and a managerial capability in the EU occurred in Poland, in 2009 and was completely unsuccessful. What is more, that road-building project was a point of reference for cultural clashes and the negative image of Chinese builders.²⁸ The acquisition of *Volvo* by China’s *Geely* during the same year was a completely different story, a fully successful one, as following the deal sales and profits improved. A similar acquisition occurred across the Atlantic as *IBM’s* PC and server business were purchased by *Lenovo*. China’s entire or partial acquisition of ports in Greece, Croatia, Slovenia, Spain, Belgium, the Netherlands, Italy, has not gone unnoticed. Without serious hindrance, China was buying up critical infrastructure in Europe, while the EU’s foreign direct investments in China were on decline. China entered the European territory vigorously offering what was needed: resources, including abundant financial ones, the capability of its companies to engage and perform, and its huge market’s attractive force.

²⁴ Echo (2010).

²⁵ Michaletos (2010). Available at: <http://serbianna.com/analysis/?p=440>.

²⁶ The DredgingToday.Com (2013). Available at: <http://www.dredgingtoday.com/2013/01/15/piraeus-container-terminal-on-modernization-path-greece/>

²⁷ The deal included mandatory investments up to 300 million Euros that the Chinese company would pay HRADF an additional 88 million Euros and increase its stake by 16–67% in the following five years. Please consult: Georgiopoulos (2016).

²⁸ It was marked by formal protests of a Polish company, which had lost a bid with an offer 50% more expensive than the Chinese one, and finally by a broken contract by *China Overseas Engineering Group (COVEC)*, as COVEC proved to be incapable of delivering its US \$447 million contracted project for a 50 km highway from Warsaw to the German border. Mitrović (2016).

In 2012, on the level of bilateral relations, the EU and the PRC signed the Political Agreement²⁹ on launching negotiations that should end with the Comprehensive Agreement on Investment. When China's President Xi visited Brussels (on 31 March 2014), as well as several European states, to provide impetus to future relations and to work on the Agreement that should have broaden and strengthen the framework of comprehensive strategic partnership, relations seemed to be developing in a mutually acceptable direction, both side seeming to have finally reached an acceptance of the reality of the relationship. But in spite of very impressive data about their trade that rose above the value of one billion Euros per day, nonetheless, it is a striking note that trade (with the EU having a huge deficit in visible trade) makes up the dominant proportion of the relationship, defined as a comprehensive strategic partnership, and thus bringing the relationship's strategic level into question. Having said that, it is even more emblematic that this particular dominant way of interaction is burdened with problems. At the time of President Xi's aforementioned visit the process of unpleasant bargaining and serious disputes and accusations between the two generated more tension, with solar panel issues and other anti-dumping procedures initiated by the EU at the time. These issues were settled ahead of the 40th anniversary of the relationship, but achieving a truly comprehensive agreement on trade and investment proved to be more complex and difficult. However, differences based on different values and the misunderstanding of each other kept emerging. The revival of economic cooperation between China and Central and Eastern European countries through the "Sixteen plus One" platform in 2012 was a significant upsetting issue for those in the EU who were reserved about China's "hidden agenda" in Europe. After enthusiastic beginning, there were soon some questionable elements of the framework that challenged it from within. At the first summit, Chinese Prime Minister Wen announced a set of measures, later named "the twelve measures"³⁰ as a framework for reviving relations. Among those was a credit line of US \$10 billion of which 70% of which were "commercial loans". Nevertheless, the whole amount of US \$7 billion lingered due to unfavourable conditions, as was unofficially explained. Projects in the area of transport infrastructure, high-technology and renewable energy were prioritized. But these loans were arranged under discriminatory conditions, since the Chinese side required state guarantees from the recipient state concerning infrastructure projects—which was not possible for eleven of "the Sixteen" that were the EU member states died to the EU's regulations and introduced business practice in carrying out projects. Since projects were agreed upon the highest political level, financed by designated Chinese state-owned bank, realized dominantly by a Chinese state-owned corporation with no bidding process, etc., it was declared as market distortion by the EC. This was China's way of introducing its method of conducting business in Europe, in less regulated markets of the non-member states of South-eastern Europe, but it was also a challenge issued to the

²⁹ European Commission (2020).

³⁰ China's Twelve Measures for Promoting Friendly Cooperation with Central and Eastern European Countries (2012). Available at: https://www.fmprc.gov.cn/mfa_eng/topics_665678/wjbispg_665714/t928567.shtml.

norms and standards of the EU, as all these countries were on the path to become member states. Some projects were also later discovered to be connected with corruption as an element of the decision-making process and its cost, while others were determined to be jeopardizing the recipient country's level of debt.

The goal of the cooperation in trade, which was proclaimed to increase up to US \$100 billion by 2015 as a result of one of the “twelve measures”, was not reached, though it did not cease to grow. Nevertheless, the trade deficit of “the Sixteen” also increased significantly.³¹ According to Chinese official data, in 2016, the trade volume between China and CEECs reached the value of US \$58.7 billion, but, on the side of the CEECs the five most developed CEECs ended up being dominant actors in the venture, with a participation rate of 82 per cent. In plentiful trade fairs in China and in “the Sixteen”, Chinese corporations were mostly interested in increasing their export, while the biggest exporters among the CEECs, such as Poland, complained that when the Chinese market opened for some products, it had a tendency to close for others.³²

Every year, there has been a summit of prime ministers in a different capital of the CEECs or in China, with institutionalization and legal bases of the cooperation being built on, together with political documents and an abundant set of initiatives regarding economic cooperation. At the Belgrade Summit held in December 2014, the parties adopted the “China 2020 Strategic Agenda for Cooperation” and stated that the EU legislation was the basis for the cooperation. At the Summit, the parties supported the set-up of the China-CEEC Business Council in Warsaw. The decision on the formation of the first sectoral coordination centres was adopted: the China-CEEC Tourism Promotion Agency in Budapest and the China-CEEC Investment Promotion Agency in Warsaw and Beijing. At the summit, Chinese Prime Minister Li emphasized that all the agreements and projects had been pursued in line with EU regulations. During 2015 and the first half of 2016, cooperation intensified and the period was marked by high-level visits. The regular prime ministers' summit was held in Suzhou in November 2015, and China's bilateral cooperation with the Czech Republic, The Republic of Serbia and Poland, was highlighted with President Xi's visits to the three states in Spring 2016. It was the first occasion wherein China's top leaders visited exclusively CEECs when coming to Europe. The essential theme of the relations during that time was upgrading and framing the cooperation into China's internal and international frameworks, especially the BRI. In that sense, the modernization of the Belgrade–Budapest railway was specified as particularly important, and the “Sixteen plus One” project became “the most important BRI project in Europe”. The project was initially approved in November 2013 during the China-CEE countries prime ministers' meeting in Bucharest, by China, Hungary and Serbia.³³

³¹ Pencea (2017).

³² Mitrović (2019), p. 141–165.

³³ Rail section through Serbia is totalling over 200 and 166 km through Hungary. According to earlier estimations, the modernization would cost between EUR 1.5 to 2 billion. Mitrović, Dragana, “16 + 1 in 2015/2016 - upgrading, framing and stepping up cooperation”. *Asian Issues*, Vol. 2, No 1. 2017, p. 8.

Once completed, the railway was supposed to become a major commercial traffic corridor along the planned path from the Athens' Piraeus Port towards the North, along Greece, through Northern Macedonia, and Serbia and onward to Budapest.³⁴ The actual construction on three-party project, described by the Chinese media as “*China Railway Corporation's* first project in the EU” had not started before 2019 in Serbia's case, although an important section was under construction performed by Russian RDZ, under the agreement from 2013.³⁵ There was one more symbolic opening during the Budapest Summit in 2017, but it ended with the Chinese corporation's engagement in renovating the Zemun railway station. The project, though, remained a top priority for Chinese planners,³⁶ while Chinese president Xi Jinping named it a top project within the BRI at the BRI Forum held in Beijing in May 2017.

In order to solve the conundrum and make it acceptable to the EU's regulations and to fulfil China's aspirations in the project, the Hungarian government needed the COVID-19 measures to make its twenty-year credit of US \$1.8 billion with China's *Exim Bank* (meant to find 85% of the construction's costs) classified information for a period of ten years. The rest will be covered by Hungarian government, while the construction will be done by the Chinese-Hungarian consortium. As this infrastructure project worth almost US \$3 billion was prepared contrary to EU regulations and standards, which require a public tender, the EU opened an infringement procedure against Hungary as early as 2016. In addition, Hungary was legally obliged to reduce its debt from 75% of its GDP to 50%, but this credit led the country in the opposite direction and created even more problems within the EU and between the EU and China.

Another overlapping strategic goal for both the “Sixteen plus One” and the BRI is to spread the Chinese culture. In 2006, the first two Confucius Institutes in CEECs were established in the capitals of Bulgaria and Hungary, while by May 2014 there were already 24 Confucius Institutes and eight Confucius Classrooms established in fourteen CEE countries, with 18,000 students mainly studying the Chinese language. After initial enthusiasm, dominantly Central European and later the Baltic member of the “Sixteen” started to express dissatisfaction with the framework. Though they were the biggest beneficiary of the framework's economic side, they complained about undelivered China's promises on FDI and growing trade deficit on their side.

One year after the “Sixteen plus One” initiative was launched, a much bigger and much more significant strategic initiative, The Belt and Road Initiative—consisting of land-based Silk Road Economic Belt and sea-based 21st Maritime Silk Road BRI—was announced by China's president. The BRI epitomizes China's enterprising and dominant shift towards creating a reality in which it will have a reinforced position in global economic and political affairs. It also shows the way in which China would like to make its impact on shaping the present as well as the future of global affairs.

³⁴ Ibid. p. 8.

³⁵ For more about Belgrade-Budapest Railways upgrade, please consult Mitrovic (2019), p. 141–165.

³⁶ For more, please consult: Mitrovic, Dragana: Political Economy of the Chinese Investments in Eastern, Central and South-East Europe. *Asian Studies*, Budapest: Vol 2, 2013, pp. 167–185.

On the other hand, it could be seen as the next phase of China's "reform and opening-up" policy's realization. While the BRI has been outward oriented, it was created as a solution-platform to China's domestic economic, political, security and social needs. Its strategic creation is made of structures and connections (by mechanisms, formats and projects) that should present solutions for the Chinese domestic economy to keep its growth rate, providing sustainability to the existing development model while it is undergoing a major change into a consumption driven one, to provide employment and markets for state-owned corporations burdened with over-capacity, to ensure higher capitalization of its financial placements, diversify (and secure with state-guaranteed loans) its OFDI, and to provide internationalization of the RMB yuan, including even its crypto version. It also has a role in creating new markets for a range of over-produced products, productions and services—among others: steel, glass, cement and shipbuilding—and high-tech products and services, such as e-commerce. It should also help China export its major polluting industries by "cooperation in industrial capacities", something put very high in "Sixteen plus One" agenda by China's leader. The BRI's connectivity feature is also meant to unify Chinese market and standardize it in many aspects, to export Chinese managerial and building skills, among many others, to spread China's high-tech products and technologies, as well as China's standards in these areas. China, through the BRI, has been making itself a normative power. It is also about to spread China's way of conducting economic development and growth and its way of making business deals and performing business operations, as well as expending its culture influence in general. China has strongly politically promoted the BRI and its strategic continental connectivity vector throughout Eurasia by way of an impressive number of bilateral agreements of good neighbourly, co-operative and strategic partnerships. The PRC has also financed and built transport, communication and energy infrastructure within the first six corridors of the BRI, that later expanded globally.³⁷

The Belt and Road Initiative, strategic in nature, but named "initiative" to remain soft and inclusive in manner, has a strong geopolitical element, beyond the geo-economic one. Expanding over several maritime vectors via the "21st Century Maritime Silk Road" to reach Asia-Pacific, Africa and Latin America as the final point, and via the continental one via the "Silk Road Economic Belt", China has declared its strategic orientation to become a maritime power once again, after many centuries. Similarly, in order to expand throughout Eurasia mitigating the Malacca dilemma and other possible challenges on the blue sea China has simultaneously been engaging its major and other partners from its south-eastern coast cities, over its territory towards Eurasia and up to the Western coast of the European continent. Along roads and across continents, this has helped China to open its first naval base in a foreign territory in Djibouti, and to spread its 5G telecommunication equipment and technology through the medium of its gigantic state-owned hi-tech corporations that had become globally dominant in many areas—such as Huawei, ZTE, China

³⁷ Mitrović (2018), pp. 26–46.

Telecom, etc. By doing so, China was willingly challenging the existing international political and economic order, its norms and regulations, its values and major powers, notably the USA and the EU.

China recognized that “Central and Eastern European countries” were key partners in its Belt and Road Initiative as all “Seventeen” were situated on the route charted by the Initiative. This explains why the previously created “Sixteen/Seventeen plus One” framework of cooperation was immediately incorporated into the Belt and Road Initiative. When it comes to “Sixteen plus One” cooperation, the BRI somewhat blurred the limits of its content. On various occasions, different Chinese officials and scholars have emphasized that the two had merged and, accordingly, previously arranged and even finished, projects became proclaimed as BRI projects. In that sense some “Sixteen plus One” projects “became” parts of the BRI: the cargo terminals of the Piraeus Port or the Belgrade-Budapest railway, the bridge over the Danube in Zemun-Belgrade (*Pupinov most*).

While the major collaborative projects between CEECs and China have been progressing steadily,³⁸ they have fallen victim to a variety of obstacles. These result from the relatively limited capacities of the small economies of “the Seventeen”; neglected ties between the two sides in the decades prior to the platform’s introduction; China’s tendency to treat the CEECs as a grouping of states, outside of their obvious differences; the EU membership of eleven, and later twelve CEECs and the legal and politico-economic implications on their cooperation with China; and China’s continued pursuit of its less-than-transparent methods of conducting business operations and concluding business deals with high-level political and state involvement. Cooperation with China would have been much more beneficial if their domestic governments had managed to avoid the competitive tendency within “the Sixteen” in order to determine their shared middle- and long-term objectives across a number of major areas for collaboration. To date, they appear to be just a passive partner in one of the complex experiments of a China ascending towards its desired global position, while bilateralism in relations with the PRC prevails over the “Seventeen plus One” platform.³⁹

Nevertheless, “Seventeen plus One”, for all its shortcomings, did succeed in pointing out the EU’s political and economic limitations for the duration of the economic crisis years, during which not only the eleven member states, but also the candidate countries and future candidate countries within “the Sixteen” found themselves both politically disregarded and economically deprived of many of the EU’s funds. Even worse, Brussels boldly pursued its traffic and energy corridors while ignoring the needs and desires of the countries over whose territories these corridors would or would not pass. Here, China filled the void, and was welcomed by

³⁸ *China-CEEC Ties Make Remarkable Progress, Enhance China-EU Cooperation* (2017).

³⁹ Mitrovic, Dragana, “Six Years of ‘16 + 1’ Framework of Cooperation—in Between EU, Expectations and Limitations”, in: *Challenges of Adjusting to a Changing Global Economy in the 21st Century*. Bucharest: Romanian Academy; Chinese Academy of Social Sciences, (CASS); Beijing: The Institute of International and Public Affairs; Tongji University, Shanghai, 2019.

local political elites, sometimes stimulated in various—though, not always acceptable—ways. A plausible perspective on this has been that China’s strong appearance “helped” Brussels’ institutions to become a responsible stakeholder by way of its European Structural and Investment Funds (ESIF), The European Fund for Strategic Investments (EFSI), the Connecting Europe Facility that mobilizes investments in cross-border infrastructures for transport, energy and digital networks and other financial tools introduced for member states, as well as to go on with a Connectivity Agenda as part of the Berlin Process for the Western Balkans, although it was worth only EUR 1.4 billion and later accompanied by another offer in the form of a modest COVID-19 recovery fund worth EUR 9 billion. The other part of the EU’s awakening is a New Framework for Investment Screening that will render further attempts by any Chinese corporation to acquire security sensitive assets, such as an energy infrastructure firm or harbour, considerably more difficult and subject to strict EU rules.

4 EU Connectivity Strategy and COVID-19 Impact on the Relation

The EU Strategy on Connecting Europe and Asia was introduced on September 2018 with concrete policy proposals, initiatives and projects to promote connections and improve cooperation between Europe and Asia, through, among others, transport, energy and digital networks, as well as the Investment Facility for Central Asia, the Asian Investment Facility and the European Fund for Sustainable Development (EFSI). Though it was formally delivered as the EU initiative for the Asia-Europe Meeting (ASEM), it was widely seen as a major, though somewhat belated, EU’s response to the BRI and China’s strong influx inside European territory and the EU’s interest zones. The EU’s connectivity agenda insists on “sustainable connectivity and investments that need to ensure market efficiency and be fiscally viable,” “comprehensive connectivity,” and “international rules-based connectivity.”⁴⁰ The EU strategy on connectivity between Europe and Asia set out very different principles to those of the BRI’s though leaving space for common ground for cooperation with China. The strategy also insists on “high standards of transparency and good governance” in connectivity projects, “giving a voice to the people affected by the projects, based on appropriate public consultations” directly expressing problem-causing in the eyes of the Brussels the Chinese and the BRI’s projects with top-down model of policy-making and decision-making processes. As pointed by many, that difference in values and standards is and will remain difficult to resolve and create “win-win” outcome, advertised so often by China.

The global aspirations of China, especially after the formation of the “Sixteen/Seventeen plus One” initiative, and China insisting on its own way of doing business inside its own market and globally, including along the Belt and Road, have

⁴⁰ “Connecting Europe and Asia—Building Blocks for and EU Strategy” (2018).

become an obstacle and cause for scrutiny in the EU political circles and the general public. The European Commission's "*EU-China: Strategic Outlook* that branded China as "an economic competitor in the pursuit of technological leadership, and a systemic rival promoting alternative models of governance",⁴¹ thereby initiated a major shift in creating an effective strategy that would express a changed viewpoint towards China and firm EU stands. Clashes during the COVID-19 crisis along with developments in Hong Kong, Xinjiang, and the South China Sea, only deepened the mistrust and exposed their remote positions. After the EU's Strategic Outlook, the two summits of the pair, one in April 2019 and the latest (held virtually) in June 2020, were additionally burdened with the aforementioned issues, together with cyber-security, and were marked by new misunderstandings and the EU's firm stand before China's not delivering upon the previously agreed arrangement.

The COVID-19 pandemic added another disturbing element in the EU-China relationship. In Brussels and many other Western capitals, China was seen as trying to seize the occasion and put itself in a leading position in the global struggle against COVID-19. For many, Beijing saw the initial inappropriate reaction of the EU and the chaotic response of the USA to the pandemic as a trigger for its designed global aspirations. The generally inefficient reaction to the COVID-19 pandemic by Western democracies had "proved" to Beijing that it would outdo the USA and particularly the EU as a global power, based on the belief that China was rising while the West's power was fading. It also supported the growing concerns that China was using the "crisis as an opportunity"⁴² not just to pursue its leadership-driven ambition, but to advertise and "export" elements of its political system to rising economies and Third World countries, and some Central and European countries allegedly inclining towards authoritarian political systems.

Through its "mask diplomacy" campaign China sent medical assistance to more than one hundred and fifty countries around the globe, including EU member states, Serbia and few other "Sixteen plus One" non-EU members, the USA, Russia, Iran, and all African states, at the same time attempting to buffer the negative impression of its initial handling of the virus domestically and towards the world that enabled it to cause a pandemic. Beyond donations, China has also sold huge quantities of badly needed ventilators, test kits, masks, disinfectants, and other essential goods. What was hardly, if ever, mentioned by Chinese media outlets was the fact that China had received generous help from abroad, especially from the EU, months earlier, when it declared its health emergency and lockdown. In contrast with China's subsequent requested public performances in recipient countries during deliveries of its aid, the PRC had asked the EU for discretion when receiving assistance. This coupled with the application of "wolf diplomacy" against those who wanted answers about the origins of the virus and the second pandemic in the last twenty years spreading around the globe from China, anger in the EU public sphere was caused by inaccurate test kits sold by Chinese corporations to the Netherlands and some other countries. These developments caused the EU-China relations to further deteriorate.

⁴¹ Small (2020).

⁴² Thomas (2020). Available at: <https://macropolo.org/china-great-power-foreign-policy-covid19/>.

After seven years and thirty-five rounds of negotiations, the Comprehensive Agreement on Investment (CAI) throughout of 2020 remained a distant goal. The positions of the two sides stayed entrenched—the EU was getting stricter in its demands and expectations, while China kept on repeating its verbal commitments and delivering very little in reality. The EU’s side had made and insisted upon specific requests while attempting to “rebalance” the existing disproportion in market openness of the two, seeking an opening of particular key sectors of the PRC’s economy, such as: telecommunications, ICT, financial services, health and manufacturing for FDI from the EU, and further opening other markets for export coming from its member states. The EU insisted that the Agreement was not just about creating new investment opportunities, but first improving the existing business environment for EU companies so that they compete “on a level playing field” on the Chinese market. Specifically, the EU side was demanding very similar commitments to those requested by the USA, naming “avoiding forced technology transfers, removing discriminatory authorization procedures, ensuring that Chinese state-owned enterprises compete on equal terms” and act on the basis of commercial considerations and not like state agents, and improving transparency regarding subsidies to Chinese companies.⁴³ The EU required firm commitments and deliveries by China on sustainable development, in particular the protection of the climate and the environment, as well as on labour rights. By demanding all these, the EU partly asked for the impossible—for China to change its economic model—but in spite of that, both sides continued to negotiate. Seven years of negotiations exposed their deep differences in values, while their goals remained alike—to prevail over the other side’s determination and might.

Only until the last days of 2020, it seemed as if the deadline would be missed, and that the EU’s negotiating position’s integrity was to remain untarnished, while outside of the negotiating table the new USA administration wanted “early consultations” to make a common-China approach, and China (voiced by Wang Yi) “supported the EU’s push for strategic autonomy”. He also announced the deal to actually be made and—it was. The deal “in principle” was closed on December 30th, thanks to a strong push from Germany and France, and contrary to the interests of many, especially the less investment-oriented EU member states, human rights groups, the EU-USA partnership, the European Parliament and the EU’s own reputation. Germany has used its EU rotating presidency in 2020 and its influence in the EU bureaucracy—the President of the European Commission’s and the director-general for trade are both Germans—to close a deal that is most beneficial to big German companies in China.⁴⁴ There are 5200 of them operating in China, with direct investments of EUR 76 billion, according to the latest figures from BDI, the German industrial lobby. With the support of French President Macron, who joined the online meeting

⁴³ EU to evaluate Chinese offer for European investors, *European Commission*. Brussels, 19 December 2019. Available at: <https://trade.ec.europa.eu/doclib/press/index.cfm?id=2096>

⁴⁴ Erlanger, Steven. Will the Sudden E.U.-China Deal Damage Relations With Biden? *The New York Times*. January 6, 2021. Available at: <https://www.nytimes.com/2021/01/06/world/europe/eu-china-deal-biden.html>.

with Xi Jinping in an unknown capacity, German Chancellor Merkel was able to push the deal in spite of a resistance within the EU among political circles and many public figures. Additionally, on December 16th, Germany’s cabinet sent legislation to the Bundestag that would allow China’s Huawei, under strict security guarantees, to build 5G networks on its territory,⁴⁵ ignoring security concerns from Washington and many EU partners that excluded the Chinese firm altogether; this fact again illustrates what the top concern of the German political elite is when it comes to China. On the other hand, weak resilience towards economic uncertainty and public dissatisfaction with swinging anti-pandemic measures’ results along with close connections to the interests of big corporations, make Germany, the biggest EU economy and major pillar of its resistance towards major global powers’ influences, weak and submissive to China’s negotiating tactics. Nevertheless, the EU, via its political leaders, sent a very strident message that it preferred a pragmatic deal over “European values”.

By concluding the CAI this way, the EU disadvantaged itself of a strong influence over China that it maintained during the period of negotiations, and it will diminish the EU’s probabilities to get the aspired equal terms in trade and investment cooperation with China. Additionally, the CAI will most likely spoil the EU-USA alliance and prospects for joined pose towards China, and to accomplish its goals and to persuade China to reduce the ill-treatment of human rights, as well as to discourage its assertiveness abroad, the EU needs the strength of a unified position with other major powers.

5 Conclusion

As defined in *The EU’s Strategic Outlook on China*, the Union was determined to “improve and rebalance” the trade and investment relationship. And until the end of 2020-year when the 45th anniversary of EU-PRS relations was marked—and after seven years of negotiations to conclude the CAI, the two parties seemed to remain far from achieving it, entrenched in their positions. For the EU’s side, the rule of law is the default position and all member states would agree on that, but when it comes to many other issues, unity of the EU is waning. So as to prove this, suddenly, and at the last moment, the deal was done, pushed by Germany and France, opposing dominant, domestic EU and cross-Atlantic, expectations. That is an aspect of this relationship which for Beijing was often a negatively affecting quality of it, but which, on the other hand, has often given Beijing a chance to exploit it. Accordingly, concluding the CAI (“in principle”) exposed some of the deep weaknesses of the EU coming from different interests of its member states, and ability of most powerful among them to shift the EU towards fulfilling their own particular interests on the expense of the common interest of the EU.

Most of the problems between the EU and the PRC faltering their cooperation more and more over the years—and that goes for the totality of the relations between the

⁴⁵ Germany opens the door to Huawei, with conditions (2020).

Western powers and China—originate from both side's unrealistic perceptions and expectations from the opposite side. In China's case, it was the belief that as it grows it would be accepted and appreciated as a major country, though run by the Communist Party and with a crucially different mode of operation and culture. However, at some point, Beijing realized that, while China was being involved into the liberal international economic order, with that came anticipation that it would gradually change and eventually adopt that order's values and norms. When the CPC leadership "saw through it", it was an awakening and disappointing point for them, "proving" again how unfairly the West had treated China. They decided to rebuff "Western universal values" as part of a "Western capitalism ideology", as pointed out by China's President Xi Jinping. Eventually, the EU and other Western countries finally comprehended that China would not change and that it had meanwhile become a tremendously mighty, and revisionist power—something they had not anticipated nor wanted to happen. It was not just the fact that China had not broken their expectations, but more—it put the EU into the position where it needed to adjust to new challenges coming from such development.

Nevertheless, they had to continue with their bilateral ties along with the process of shaping a new world order and the transformation of China into a global power in full capacity. The lack of capability on the EU's part to make a needed impact on China through its mutual-engagement process influenced all of these developments. It let oversized room for China to rise without the helpful impact and normative influence of the EU that could have helped China in formatting and exercising a more balanced, considerate and possibly more modest global power aspiration mission. The rise of China and its might to reshape the world order with its own financial, political, and cultural resources was not assisted by the EU due to the EU's weakness and contrary to the global need of the EU's constructive contribution. Chinese analysts have pointed out that now the EU is declining, as almost all member states are in the same declining status. Because of that, accordingly, the EU has become offensive, more conservative and more unable to solve global issues and it did not assist and support China on the level it was supposed to do. A more engaged and solid EU would have almost certainly kept China occupied with building a multi-polar order, and kept it away from strategies of "major power relations" within the framework of G-2, or even from notions of being the dominant power.

But in spite of the global importance of EU–Sino relations and enormous potentials for its development on a win–win basis, that at the same time would benefit the global political economy, it has remained severely strained and underdeveloped in many areas that altogether make global governance less effective. It has also narrowed the EU's capacity on the global scale and blemished its once admired model in the global community. The EU and China will continue competing, cooperating and (mis)interpreting each other while their substantially different values will continue to clash.

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