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“Development through Acquisition”: The Domestic Background of China’s Europe Policy

by Fabio Angiolillo

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ABSTRACT

In the last five years, the People’s Republic of China has shown more assertiveness on the international stage than was the case in the past. To understand the main drivers behind this change, it is necessary to analyse the domestic challenges that the regime currently faces. Recently, the Chinese Government released two economic plans: Made in China 2025 and the 13th Five-Year Plan. These guidelines are not mere industrial plans but also draw crucial foreign-policy trajectories, including as regards China’s relationship with Europe. A two-level approach underlies the latter. The first level tries to intensify economic and investment relations with individual European Union countries in order to fulfil what could be called “development through acquisition”. The second level aims to strengthen the long-standing relationship between Beijing and EU institutions, considered by the leadership in Beijing to be crucial for the international rise of China.

China’s domestic policy | China’s foreign policy | External trade | FDI | European Union

keywords

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Introduction

The impressive economic growth that the People's Republic of China (PRC) has experienced since its 1978 "opening up" has undoubtedly shifted the world's geopolitical axis. From a Chinese perspective, the momentum that post-Maoist China has witnessed in the last 40 years has deeply changed the country's internal economic structure and policymaking process. Even though scholarly attention on China has grown considerably, the study of the domestic foundations of the PRC's foreign policy has somehow been neglected. Only recently has some analysis started to shed light on the bureaucratic influence over the Politburo Standing Committee's foreign-policy decisions.[1] It is indeed critical to analyse Beijing's foreign policy – including as regards the European Union and its member states – through a lens that takes account of China's domestic challenges.[2]

1. Xi Jinping the centralizer

Since Xi Jinping's election as General Secretary of the Communist Party of China (CPC) on 15 November 2012 and shortly after his election as President of the PRC, the country has smoothly – although unexpectedly – changed its foreign-policy approach.[3] Up until the tenure of Xi's predecessor, Hu Jintao, Beijing's policymakers continued to follow the TGYH (*Tao Guang Yang Hui*, "adopting a low

[1] Hongyi Lai and Su-Jeong Kang, "Domestic Bureaucratic Politics and Chinese Foreign Policy", in *Journal of Contemporary China*, Vol. 23, No. 86 (2014), p. 294-313.

[2] David M. Lampton (ed.), *The Making of Chinese Foreign and Security Policy in the Era of Reform, 1978-2000*, Stanford, Stanford University Press, 2001.

[3] Suisheng Zhao, "Chinese Foreign Policy as a Rising Power to Find Its Rightful Place", in *Perceptions*, Vol. 18, No.1 (Spring 2013), p. 101-128, https://sam.gov.tr/?p=3598.

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profile") strategy designed by Deng Xiaoping.[4] On 4 September 1989 – immediately following the Tiananmen backlash – Deng stated during a conversation at the CPC Central Committee that

> First, we should observe the situation coolly. Second, we should hold our ground. Third, we should act calmly. Don't be impatient; it is no good to be impatient. We should be calm, calm and again calm, and quietly immerse ourselves in practical work to accomplish something – something for China.[5]

Xi seems to have broken with this tradition. He has turned foreign policymaking from a passive mode to a more active one.[6] Hence, it is crucial to distinguish between the development of already ongoing Chinese foreign policies and an entirely new approach to international affairs.

The former is represented by the security measures undertaken by the central government in managing territorial claims and unstable internal regions.[7] A prime example is the worsening of the South China Sea disputes, which originated long before the Communists took power in Beijing and are currently deteriorating further. In another well-known instance, the cases of the Uyghur and Tibetan minorities represent two principal issues with which the Chinese leadership has been confronted since the early 1950s. Therefore, it would be an error to categorize Xi's recent tough approach to these matters as a newly implemented policy.

Similarly, the peacekeeping operations that the PRC has been undertaking in the last few years are in line with a policy that predates Xi's ascension to power.[8] The first Chinese involvement in UN peacekeeping operations came in April 1990, when Beijing sent five observers to take part in the UN Truce Supervision Organization (UNTSO) in southern Syria.[9] Nonetheless, Xi has presided over an increase in Chinese's contributions to peacekeeping missions, which have remained above 2,500 units since 2015 – their highest level ever.[10]

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[4] Dingding Chen and Jianwei Wang, "Lying Low No More? China's New Thinking on the Tao Guang Yang Hui Strategy", in *China: An International Journal*, Vol. 9, No. 2 (September 2011), p.195-216.

[5] Deng Xiaoping, "With Stable Policies of Reform and Opening to the Outside World, China Can Have Great Hopes for the Future", in *Selected Works of Deng Xiaoping. Vol. 3: 1982-1992*, Beijing, Foreign Languages Press, 1994, p. 311, https://wp.me/p3cQZN-7Y.

[6] Sebastian Heilmann, *Red Swan. How Unorthodox Policy Making Facilitated China's Rise*, Hong Kong, Chinese University Press, 2018.

[7] Andrew J. Nathan and Andrew Scobell, *China's Search for Security*, New York, Columbia University Press, 2012.

[8] Institute for Security Development Policy (ISDP), "China's Role in UN Peacekeeping", in *ISDP Backgrounder*, March 2018, p. 7, http://isdp.eu/?p=31157.

[9] Marc Lanteigne, "Red and Blue: China's Evolving United Nations Peacekeeping Policies and Soft Power Development", in Chiyuki Aoi and Yee-Kuang Heng (eds), *Asia-Pacific Nations in International Peace Support and Stability Operations*, New York, Palgrave Macmillan, 2014, p. 117.

[10] ISDP, "China's Role in UN Peacekeeping", cit., p. 3. See also the UN Peacekeeping website: *Troop and Police Contributors: China*, https://peacekeeping.un.org/en/china.

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Xi has also introduced significant novelties, however.[11] Even though friction with Japan has always been a critical feature of North East Asia's geopolitics, Xi has adopted a more assertive approach to the issue. A perfect example of this is the overnight implementation of the aggressive national-security project Air Defence Identification Zone (ADIZ), the aim of which is to tighten control of naval, land and air space around the Senkaku/Diaoyu islands, claimed by both Beijing and Tokyo. But the most important examples of a dramatic shift from the TGYH, and of the inauguration of a new era of Chinese foreign policy, are the Belt and Road Initiative (BRI). The "Belt" is China's biggest land transport infrastructure plan, which Xi launched in 2013 with the aim to connect the Eurasian continent through three main routes across Russia, Central Asia and Middle Eastern countries. The "Road" – confusingly enough – is the maritime equivalent of the "Belt", which should connect China's largest ports to the Europe's Atlantic and Mediterranean terminals via the Indian Ocean, the Persian Gulf and the Red Sea.

Xi has centralized PRC decision-making through his presence in most of the leading small groups (LSGs), which perform the core of policymaking in Beijing.[12] Hu used the LSGs with less intensity and, during his tenure, the country was shifting towards hesitant but increasingly institutionalized and collective decision-making.[13] Shortly after the 18th Party Congress in 2012, however, Secretary General Xi took control of foreign policy. He established eight new Party LSGs and another 21 State LSGs, which enabled him to take on the leadership of 26 Party and 57 State LSGs. There are nine Party LSGs on external affairs and security issues, and Xi chairs those covering foreign affairs/national security, national defence and troop reform, cybersecurity and informatization, and the National Security Commission – all of which represent the focal points of foreign-policymaking. Even though the increased number of LSGs seems to have created an apparent differentiation in the policymaking process, the real outcome is a fragmented system of which Xi keeps tight control.

The State Council's announcement on 7 July 2015 of Made in China 2025 – whose aim is to develop manufacturing over ten years through steady growth in technology production[14] – and, shortly afterwards in 2016, the publication of the 13th Five-Year Plan[15] are critical to understanding current Chinese foreign policy.

[11] Qingmin Zhang, "Towards an Integrated Theory of Chinese Foreign Policy: Bringing Leadership Personality Back In", in *Journal of Contemporary China*, Vol. 23, No. 89 (2014), p. 921-922.

[12] Christopher K. Johnson, Scott Kennedy and Mingda Qiu, "Xi's Signature Governance Innovation: The Rise of Leading Small Groups", in *CSIS Commentaries*, 17 October 2017, https://www.csis.org/node/43540.

[13] Linda Jakobson and Ryan Manuel, "How Are Foreign Policy Decisions Made in China?", in *Asia and the Pacific Policy Studies*, Vol. 3, No. 1 (January 2016), p. 109, https://doi.org/10.1002/app5.121.

[14] See the official website: http://english.gov.cn/2016special/madeinchina2025.

[15] China's National Development and Reform Commission (NDRC), *The 13th Five-Year Plan for Economic and Social Development of the People's Republic of China (2016-2020)*, Beijing, Central Compilation & Translation Press, 7 December 2016, http://en.ndrc.gov.cn/newsrelease/201612/P020161207645765233498.pdf.

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Xi's strategy is to pursue a resolute shift domestically from quantity to quality production through economic and political actions abroad. Accordingly, the BRI is necessary to outflow the PRC's overcapacity in industrial production.[16] The first planned economic development that the Xi Administration released includes the BRI and the implementation of the transport networks that connect the two extremes of the Eurasian continent – and, specifically, China to Europe.[17] More concretely, it is possible to break down the Chinese strategy towards the "Old Continent" by analysing, on the one hand, bilateral relations between the PRC and EU member states and, on the other hand, relations between the PRC and EU institutions.

2. Xi's approach to the European Union

Xi commonly uses quotations from Confucius to explain his policies,[18] and it is possible to summarize his vision of Europe with a quote from the Analects: "if those who are distant do not submit, one must cultivate patterns and virtue to attract them".[19] Even though Xi's foreign policy is not directly aimed at establishing hierarchical relations of submission, his approach is geared towards flushing out European technological advantages.

The CPC and the PRC are at a critical point, both pushing forward in order to strengthen their internal stability with new strategies. Several elements point to the need for the intertwining of internal challenges and international strategies. First, Chinese gross domestic product (GDP) growth has shrunk from a double-digit rate between 1984 and 1997 and from 2003 to 2011 to a yearly average of just 6 per cent since 2013. Second, the growth of the Chinese middle class from a mere 10 per cent during the early years of the new century has now reached a level of more than 20 per cent of the population.[20] Third, the growth of the elderly without sufficient welfare safety nets or health-service provision poses significant challenges in terms of the sustainability of the country's economic growth. The final element is the fact that China's urban population has overtaken its rural population for the first time in history.

The EU member states are "gold mines" that can provide the PRC with advanced expertise and technologies in exchange for investments. This strategy – the

[16] Thomas S. Eder, "Mapping the Belt and Road Initiative: This Is Where We Stand", in *MERICS Belt and Road Tracker*, 7 June 2018, https://www.merics.org/en/bri-tracker/mapping-the-belt-and-road-initiative.

[17] NDRC, *The 13th Five-Year Plan*, cit.

[18] Wang Jian, "Drawing on Confucian Wisdom for Better Governance", in *Xinhua*, 5 January 2016, http://www.xinhuanet.com/english/2016-01/05/c_134980261.htm.

[19] Confucius, *The Analects of Confucius. An Online Teaching Translation*, translated by Robert Eno, Version 2.21, 2015, p. 90, http://www.indiana.edu/~p374/Analects_of_Confucius_(Eno-2015).pdf.

[20] On the Chinese middle class, see: Cheng Li (ed.), *China's Emerging Middle Class. Beyond Economic Transformation*, Washington, Brookings Institution Press, 2010.

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aim of which is to reduce the time to acquire such know-how – could be called "development through acquisition". Four G7 members are European countries: Germany, France, the United Kingdom and Italy. According to the Bloomberg Innovation Index, five out of ten most innovative countries are EU member states: Sweden, Germany, Finland, Denmark and France. Moreover, some of them are leading countries in manufacturing (Ireland, Germany and Austria) and research and development (Sweden and Finland).[21] As the Made in China 2025 document states, the gap between Western countries and the PRC in these latter two sectors is wide and, therefore, China needs to close it in order to be competitive internationally.

The economic crisis that hit European countries in 2008 provided a good opportunity for China to advance this goal. The austerity course imposed by the Eurogroup, the European Central Bank and the European Commission on weaker countries such as Greece, Spain and Portugal represented a massive opportunity for Chinese capital to infiltrate a stronghold that up until that time had proved impossible to penetrate. The most significant Chinese venture during the pre-Xi era in the EU was its 2009 4.3 billion euro investment in the port of Piraeus, Greece. This gave Beijing control over two of the three container docks there for 35 years.[22] Between 2008 and 2011, other investments followed – although it has been only since Xi took office that Chinese interest in the EU has noticeably increased.

3. China's investments in European Union countries

China approaches EU countries in an attempt to exploit their differences. This strategy aims at acquiring the best from every country through bilateral arrangements.[23]

There are three main fields on which Chinese investors chiefly focus with regards to EU member states: manufacturing, high-tech industries and infrastructure. The first two are at a crossroads between domestic challenges and foreign-policy drivers. Infrastructures are one of the "bridges" intended to connect the PRC and Europe besides economic ties and diplomatic relations. The Chinese leadership aims, for instance, for "a comprehensive transportation system that connects domestic and international transportation routes".[24]

[21] Michelle Jamrisko and Wei Lu, "The U.S. Drops Out of the Top 10 in Innovation Ranking", in *Bloomberg*, 23 January 2018, https://www.bloomberg.com/news/articles/2018-01-22/south-korea-tops-global-innovation-ranking-again-as-u-s-falls.

[22] Nicola Casarini, "Is Europe to Benefit from China's Belt and Road Initiative?", in *IAI Working Papers*, No. 15|40 (October 2015), p. 3-5, https://www.iai.it/en/node/5502.

[23] John Seaman, Mikko Huotari and Miguel Otero-Iglesias (eds), "Chinese Investment in Europe: A Country-Level Approach", in *ETNC Reports*, December 2017, https://www.ifri.org/en/node/13942.

[24] See chapter 29 in NRDC, *The 13th Five-Year Plan*, cit.

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Recently, the challenges of slowing GDP growth, rising wages and an increasingly wealthier population in urban areas have prompted the Chinese government to adopt an approach based on more sophisticated manufacturing.[25] The *suzhi* (quality) concept represents the link between Chinese middle-class requests and the country's foreign-policy trajectory towards European markets.[26] Foreign direct investments (FDI) are critical for China's ability to improve the quality of its industrial production while also bringing about a healthy rebalancing in the country's gross savings rate – which between 2010 and 2017 declined from 51.55 to 46.37 per cent of GDP.[27] Many of these FDIs have gone to Europe, which has thus become one of the most important centres of the PRC's attempt to use foreign policy to solve domestic challenges.

3.1 The relevance of manufacturing industry

The investment in the loss-making Volvo Cars by Zhejiang Geely Holding Group Co., a Chinese carmaker, is a good point to start. The first 1.5 billion euro outlay in 2010 marked the acquisition of the Swedish company from Ford.[28] In 2012, Volvo Cars opened two assembly factories and one engine plant in China. In 2017, the company achieved a record profit of 1.5 billion euro. This example is highly symbolic due to three factors. First, it was one of the first cases in which Chinese investors bought a European company from American owners. Second, the rescuing of a European company from failure gave the Chinese a chance to enter a highly advanced manufacturing company crucial for the development of the Chinese automobile sector. Third, the investments have been recovered through the profitability of the company. In 2015, Volvo Cars announced that a further step for the company would be to bring its production share of electric cars to 100 per cent within a decade.

Back in 2010, the Chinese construction-machinery and sanitation-equipment manufacturer Zoomlion acquired 60 per cent of the Italian construction company CIFA. Its 163 million euro investment can be categorized as "manufacturing development through acquisition", backed by the PRC's government.[29] CIFA is one of Italy's leading companies for vehicles and technologies for use on construction sites, which would mostly help to develop a Chinese market comprising relatively small buildings.

[25] Author's interview with Romeo Orlandi, Vice President of the Italy-ASEAN Association, Rome, 8 May 2018.

[26] See Karel Eloot, Alan Huang and Martin Lehnich, "A New Era for Manufacturing in China", in *McKinsey Quarterly*, No. 2013/3 (September 2013), p. 80-93, http://bit.ly/2fETlcW.

[27] See CEIC data: *China Gross Savings Rate*, https://www.ceicdata.com/en/indicator/china/gross-savings-rate.

[28] Bryan Gruley and Jamie Butters, "How China's 36th-Best Car Company Saved Volvo", in *Bloomberg BusinessWeek*, 24 May 2018, https://www.bloomberg.com/news/features/2018-05-24/volvo-is-better-than-ever-thanks-to-this-chinese-billionaire.

[29] Philippe Le Corre and Alain Sepulchre, *China's Offensive in Europe*, Washington, Brookings Institution Press, 2016, p. 92-93.

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While these ventures were started before Xi came to power, Chinese investments in manufacturing have increased dramatically after he took office. In 2014 alone, five investments were carried out for a total amount of over 3.43 billion euro. The most significant was the acquisition of a 51 per cent share of Nidera B.V.[30] The Dutch company is a world leader in the distribution of commodities for agricultural markets – once again, an investment that shows how China uses acquisitions to gain critical knowledge and assets for its internal needs. Technological investments to develop agricultural production is a major issue for the PRC, due to agriculture's essential share of GDP. Moreover, more efficient agricultural production in China would mean a further opportunity to tackle poverty and unemployment, which are two of the most significant challenges that the Chinese government faces in rural areas. In 2017, through the investment of 2.06 billion euro, COFCO Corporation – a Chinese state-owned enterprise (SOE) – acquired 100 per cent of the Dutch company, changing its name from Nidera B.V. to COFCO International Netherlands B.V.[31]

The "development through acquisition" strategy deepened with the purchase of 14.1 per cent of CFA Peugeot group – which was the maximum share on sale – equalling the Peugeot family's and the French government's share. Almost 1 billion euro has been invested, thus allowing a Chinese company to join one of the world's leaders in the automotive industry and thereby acquire a privileged "observation point" within French manufacturing.

The 552 million euro acquisition of Hilite, the German automotive and transport-equipment leader, is another investment that allows the PRC to gain knowledge in the development of transport production. In 2012, two German companies – KION Group and Putzmeister Holding – allowed Chinese SOEs Weichai Power Co. and Sany Heavy Industry Co. to become involved in their businesses.[32] KION Group saw the Chinese purchase 23 per cent of its share for 969 million euro and, in 2017, this share rose to 43 per cent through another investment of over 1 billion euro. Putzmeister was acquired through a deal worth almost 600 million euro – giving Chinese entrepreneur Liang Wengen the opportunity to buy manufacturing technology in order to build concrete pumps, and to acquire expertise on interventions in dangerous environments or disaster areas.[33]

Another major investment is the 6.6 billion euro that in 2015 Chinese SOE ChemChina put into Pirelli, the Italian global leader in tyre production. Swedish Volvo AB and Robot System Products (RSP) are two further examples of how the

[30] "China's COFCO Acquire 100% Stake in the Netherlands' Grain Trade Nidera", in *The Korea Economic Daily*, 25 August 2016, http://english.hankyung.com/business/2016/08/25/0556151/chinas-cofco-acquires-100-stake-in-the-netherlands-grain-trader-nidera.

[31] David Sheppard, "China's COFCO Buys Remainder of Grain Trader NIDERA", in *Financial Times*, 23 August 2016, https://www.ft.com/content/29596026-9b83-3652-9d64-7b903d0873c4.

[32] Philippe Le Corre and Alain Sepulchre, *China's Offensive in Europe*, cit., p. 24.

[33] On Liang Wengen, see: Xinhua, "Entrepreneurs' Presence Grows at CPC Congress", in *China Daily Europe*, 12 November 2012, http://europe.chinadaily.com.cn/2012-11/12/content_15920527.htm.

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PRC has pushed forward its "development through acquisition" strategy in the EU. HCD – another Chinese SOE – is now the main shareholder of the manufacturing-tool-changer company RSP. The 2.8 billion euro investment in Volvo AB means that a Chinese SOE has acquired critical knowledge for the production of trucks, buses and construction equipment – and the drive systems for marine and industrial vehicles.[34]

The 200 million euro investment that Synutra made in a powdered-milk plant in Normandy, France, in 2016, is heavily connected to the problems that China has experienced with food safety and the improvement of its children's health. A decade after the 2008 Chinese milk-powder scandal, the issue has not yet been satisfactorily addressed in the PRC. In January 2018, the Chinese Government ordered shops to remove about 1,400 milk powder products from the shelves, leaving a 17 billion euro internal market to international brands.[35] Synutra's investment relies on a bilateral agreement between Beijing and Paris on the construction of a milk-powder plant on French soil. The outcome is a win–win agreement in which the investment in Carhaix-Plouguer – a French city of around 8,000 inhabitants – has increased economic activity for the whole region, while Synutra is acquiring better skills on milk-powder production with a view to overcoming its fragility in the sector.

3.2 High-tech: Engine for the future

Besides technology to improve manufacturing, Chinese investments also aim at developing the high-tech sector – especially healthcare and robotics.

Italy was the first EU country to witness an initial wave of Chinese investments in high-tech services – namely, biotech and advanced healthcare technologies. Then came Portugal: China has made three significant interventions there since 2014. Investments in the bankrupted Espírito Santo Saúde (ESS) healthcare concern has allowed a Chinese firm to become a major shareholder (51 per cent) for 520 million euro.[36] A 460-million euro investment in the related ESS healthcare provider Luz Saúde has consolidated the Chinese presence in the Portuguese healthcare system. Another investment of 1 billion euro aimed at acquiring Fidelidade Insurance – the most important health insurance provider in Portugal – was a further step towards taking over the country's entire healthcare sector. These three investments have allowed the PRC to increase its expertise in advanced healthcare systems, which is critical to China due to its ageing population and widespread healthcare problems.

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[34] Johannes Hellstrom, "China's Geely Turns to Volvo Trucks in Latest Swedish Venture", in *Reuters*, 27 December 2017, https://reut.rs/2BIzNO4.

[35] "China Removes 1,400 Baby Formula Products from the Shelves", in *Bloomberg*, 4 January 2018, https://www.bloomberg.com/news/articles/2018-01-04/china-s-baby-formula-revamp-may-trigger-boom-for-nestle-danone.

[36] Josh Noble and Jennifer Hughes, "Fosun Offers $580m for Espírito Santo Saúde", in *Financial Times*, 23 September 2014, https://www.ft.com/content/f553100c-42d1-11e4-9818-00144feabdc0.

Finally, Chinese companies put a foot in Germany's high-tech market. In 2017, the Chinese Creat Group Corporation acquired German company Biotest AG in a 1.3-billion euro deal.[37]

China has also made investments in European robotics – thus far, particularly in Italy and Germany. The Italian Gimatic – a leading robotic toolmaker – signed an agreement amounting to about 128 million euro with Chinese investors. The 1-billion euro Sino–German agreement for the acquisition of KraussMaffei Technologies underlines the Chinese commitment in the field. China has also invested 3.9 billion euro in KUKA Robotics – the highest-ever FDI in Europe in this field.

3.3 The pivotal role of European infrastructures

Infrastructure is becoming increasingly important to China. The initial investment in the Piraeus paved the way for other purchases of European infrastructure. In 2016, there were significant investments in the Valencia and Bilbao ports, Spain (203.49 million euro);[38] in the Netherlands' Rotterdam port (125.43 million euro); and in the Vado port, Italy (70.5 million euro).[39] More precisely, Chinese investors have acquired 51 per cent of the Spanish Noatum Port Holdings and 35 per cent of the Euromax automated container terminal in the port of Rotterdam, one of the biggest in the world – and Qingdao Port International now holds a 49.9-per-cent share of the Italian port of Vado.

Sea ports have been followed by airports. In 2014, HNA Group purchased 49.9 per cent of Toulouse-Blagnac Airport[40] through a 308 million euro outlay and 82.5 per cent of Frankfurt-Hahn Airport.[41] Even though no Chinese airlines yet land at these two facilities, it seems likely that the rationale for these investments is to increase people-to-people connection, mostly related with tourism and student's exchange programmes. Other investments have been announced in Algeciras in Spain and a first investment was made in Marseille, which could become the Mediterranean "International Trade City" according to some Chinese officials.[42]

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[37] Maria Sheahan, "Biotest Agrees to Takeover by China's Creat in 1.3 Billion Euro Deal", in *Reuters*, 7 April 2017, http://reut.rs/2o5iLUw.

[38] Donny Kwok, "China's COSCO Shipping Buys $228 Million Stake in Spain's Noatum Port", in *Reuters*, 13 June 2017, http://reut.rs/2sVVeav.

[39] Raoul De Forcade, "Chinese Growing Ambitions on EU Ports and a Golden Opportunity for Italy", in *ItalyEurope24*, 7 December 2016, http://www.italy24.ilsole24ore.com/print/ADJJ1T8B/0.

[40] Michael Stothard, "France to Sell Airport Stake to Chinese", in *Financial Times*, 5 December 2014, https://www.ft.com/content/05d84b74-7c6e-11e4-9a86-00144feabdc0.

[41] Xinhua, "Chinese HNA Group Buys German Airport", in *China Daily*, 11 August 2017, http://www.chinadaily.com.cn/business/2017-08/11/content_30454157.htm.

[42] Dragan Pavlićević, "China Docks at Southern Europe's Ports", in Francis Godement et al., "China and the Mediterranean: Open for Business?", in *ECFR China Analysis*, June 2017, p. 2-4, https://www.ecfr.eu/publications/summary/china_and_the_mediterranean_open_for_business.

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4. Strengthening European Union legitimacy

The political and diplomatic partnership with the EU is essential for Chinese growth. It has an even more important strategic value for Beijing as a trans-Pacific confrontation with the United States takes shape. US tariffs on imports from the EU and the PRC are undoubtedly becoming a matter of discussion in Euro–Chinese roundtables and high-level summits.[43]

The EU–China Summit was established in 1998. The relationship deepened in 2010, with the establishment of the China–EU High-Level Strategic Dialogue.[44] In 2011, the postponement of the summit due to the debt crisis in the Eurozone created a ripple in the relationship. However, this setback was rapidly overcome with the inauguration of the China–EU High-Level People-to-People Dialogue, shortly before Xi's appointment as Secretary General of the CPC at the latter's 18th Party Congress.[45]

Some timid security cooperation has followed political dialogue. China and the EU have both taken part in the anti-piracy mission off the Horn of Africa.[46] Both parties have also participated in UN peacekeeping operations in South Sudan, Congo, Mali and Lebanon.[47] Furthermore, the EU–China Summits agenda also includes cooperation over "international and regional challenges".[48]

The EU and China have flourishing trade relations. The EU is China's first trading partner, and the PRC was worth 198 billion euro in EU exports and 374 billion euro in imports in 2017. Nevertheless, divergences are still evident. The EU has always resented Chinese dumping and unfair trade practices and has commenced actions through the Dispute Settlement Body (DSB) of the World Trade Organization (WTO), which – despite being slow– is an efficient instrument that safeguards formal diplomatic relationships from any sudden deterioration.[49]

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[43] Andrew Edgecliffe-Johnson, "Escalating Trade War Shakes Investors", in *Financial Times*, 11 July 2018, https://www.ft.com/content/799c584a-8528-11e8-a29d-73e3d454535d. See also "Conflict over Donald Trump's Trade Tariffs Escalates", in *Financial Times*, 9 July 2018, https://www.ft.com/content/5f4beb32-8365-11e8-a29d-73e3d454535d.

[44] Philippe Le Corre, "EU-China Summit: What Happens When the U.S. Isn't Watching", in *Order from Chaos*, 26 June 2015, http://brook.gs/2bN0STZ.

[45] Zhongqi Pan, "After the China-EU Summit: Reaffirming a Comprehensive Strategic Partnership", in *ESPO Policy Briefs*, No. 3 (April 2012), http://www.egmontinstitute.be/?p=10986.

[46] EU NAVFOR Somalia, *EU NAVFOR Mission Update: Cooperation and Partnerships*, 5 April 2018, https://eunavfor.eu/?p=31390.

[47] Nicola Casarini, "A New Era for EU-China Relations?", in *Foreign Affairs Snapshots*, 6 June 2017, https://www.foreignaffairs.com/articles/china/2017-06-06/new-era-eu-china-relations.

[48] European Union External Action Service (EEAS), *EU-China Relations Factsheet*, 30 May 2018, https://europa.eu/!jy74pD. See also Emanuele Scimia, "African Security: EU and Beijing Intensify Cooperation", in *Asia Times*, 10 June 2017, http://ati.ms/sxXxOW.

[49] Author's interview with Natalino Loffredo, Head of Division Common Trade Policy/WTO/OECD at the Italian Ministry of Economic Development, Rome, 10 May 2018.

In 2016, almost 40 billion euro of Chinese FDI flowed into the EU, and some 26 billion euro in 2017.[50] Immediately after the 15th EU–China Summit in February 2013, talks over an investment agreement began. The PRC also advanced the proposal to establish a Free Trade Agreement (FTA) with the EU, but no progress has been made on that front so far.

Two main cases are worth mentioning because they symbolize Chinese commitment to reinforcing the trade dialogue with the EU: the EU-China Comprehensive Investment Agreement (CIA) and the Agreement on the Cooperation on, and Protection of, Geographical Indications. In 2017, a list of 100 EU products and 100 Chinese products that would protect by this latter agreement was released.

Beijing is also interested in currency collaboration with the Eurozone. The rise of the euro internationally in a financial world less dominated than hitherto by the US dollar increases the possibility of collaboration between EU and Chinese regulators. The currency swap that occurred in October 2013 is the most topical example of this. The People's Bank of China (PBOC) and the European Central Bank (ECB) signed a currency agreement to swap 45 billion euro (350 billion yuan).[51] This monetary policy has been the third largest such swap ever in Chinese history, coming a little way behind the 400 billion yuan swap with Hong Kong in 2009 and that of 360 billion yuan with the Republic of Korea in 2008.[52]

The Chinese renminbi entered the International Monetary Fund's Special Drawing Rights (SDP) – an international reserve asset created to supplement IMF member countries' official reserves – on 1 October 2016, with 10.92 per cent in the 2016–20 new SDP basket. However, world usage of the renminbi in trade transactions is relatively low;[53] it is only the seventh most traded currency globally (the euro is the second).[54] The PRC's goal of diminishing its reliance on the US dollar is pushing Beijing to find new paths for financial cooperation with the ECB.[55] This approach has been developing over the last five years through the establishment of four offshore renminbi markets in the EU – in Paris, Frankfurt, Luxembourg and Budapest.[56]

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[50] ChinaPower, *Does China Dominate Global Investments?*, 19 July 2018, https://wp.me/p8Side-eU.

[51] Nicola Casarini, "Is Europe to Benefit from China's Belt and Road Initiative?", cit., p. 7.

[52] Hyo-Sung Park, "China's RMB Internationalization Strategy: Its Rationales, State of Play, Prospects and Implications", in *M-RCBG Associate Working Papers*, No. 63 (August 2016), https://www.hks.harvard.edu/centers/mrcbg/publications/awp/awp63.

[53] International Monetary Fund (IMF), *Press Release: IMF Executive Board Completes the 2015 Review of SDR Valuation*, 1 December 2015, https://www.imf.org/en/News/Articles/2015/09/14/01/49/pr15543.

[54] Roger Blitz and Hudson Lockett, "Renminbi Global Transactions Share at Multiyear Low", in *Financial Times*, 30 November 2017, https://www.ft.com/content/77718b6e-d5c7-11e7-a303-9060cb1e5f44.

[55] Paola Subacchi, "China's Dollar Trap", in *Chatham House's Expert Comments*, 6 March 2017, https://www.chathamhouse.org/node/28362.

[56] Daniela Marconi, *Il processo di internazionalizzazione del renminbi*, Presentation at the 9th Bank of Italy-Ministry of Foreign Affairs Conference, Rome, 22 March 2016, https://www.bancaditalia.

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Conclusion

China's strategy with regard to the EU has the dual goal of tightening bilateral relations so as to create goodwill for China in individual EU member states while also profiting from better cooperation with the Union in all matters in which EU institutions have special competences – especially, trade and monetary policy.

China needs Europe first and foremost because it can get from it industrial assets and technological know-how crucial to its own rapid development. President Xi wants to turn Chinese industrial production from a quantity-based to a quality-based operation – not least, because he wants to adjust China's economy to the needs of a society where the middle class and the urban population are growing while the countryside is declining, and people are aging faster than they reproduce.

Thus, it is evident that China's internal challenges are key elements in understanding the reasons behind the PRC's policy towards the EU. Made in China 2025 can only succeed through what may be called "development through acquisition", and Europe is the most prominent pillar of this strategy. Therefore, it is critical to further analyse Chinese domestic issues in order to effectively manage political–economic relations between Brussels and Beijing.

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