

# China in Europe: systemic rival or strategic partner?

Blog post by Senior Associate Jens Presthus, 17 April 2019

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Last week's EU-China summit and 17+1 meeting underscored something interesting in how China's relationships with the EU and individual European states are developing. While a group of influential EU states view Beijing as a "[systemic rival promoting alternative models of governance](#)", several EU and non-EU states increasingly see China as a strategic partner.

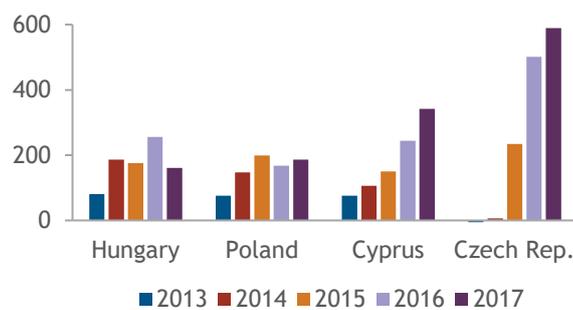
China's relationship with Europe can therefore be interpreted as a set of asymmetric bilateral relationships where especially smaller European states understand and accept that a trade-off must be made: in return for investment, it opens the door for Beijing to influence foreign affairs and investment policy - something Brussels understandably does not like but has to date struggled to counter. As Europe's infrastructure deficit attracts an ever greater inflow of Chinese investments, Beijing's influence in Europe grows with it.

China's recently expanded 17+1 initiative (after Greece joined last week) has allowed Beijing to directly engage with several EU and non-EU states as part of the BRI project, without involving Brussels. This setup has also allowed countries from the Balkans and central and eastern Europe to promote their interests outside of the EU framework. Indeed, China has become a valuable alternative source of project finance: a controversial railway project linking Belgrade and Budapest that Brussels considered financially unviable and a potential risk to fiscal stability, was happily picked up for funding by Beijing, which saw it as a useful way of transporting Chinese goods from the Beijing-owned port of Piraeus in Athens to European markets. Brussels subsequently leaned on Hungary to re-open the tender process, citing rising costs and the fact that the contract was handed to a Chinese company without an open procurement process. In contrast, on the non-EU Serbian side, construction has already begun. It is no wonder that Brussels made [procurement and a level playing field in both the EU and China](#) a priority item for discussion at last week's EU-China summit.

Another major concern in Brussels is that taking on high-levels of debt from China can potentially delay EU accession for some countries. This was the case with Montenegro. Indeed, 70% of the €15.4 bn invested in the initial 16+1 states since 2012 has gone to the five non-EU Balkan states, and they now see China and the BRI as an alternative source of growth.

**Fig 1: Chinese FDI stock**

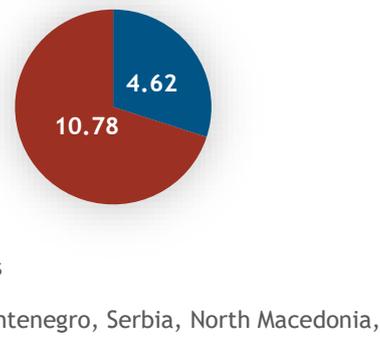
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Sources: Eurostat, FT

**Fig 2: Chinese Investments in 16+1 States**

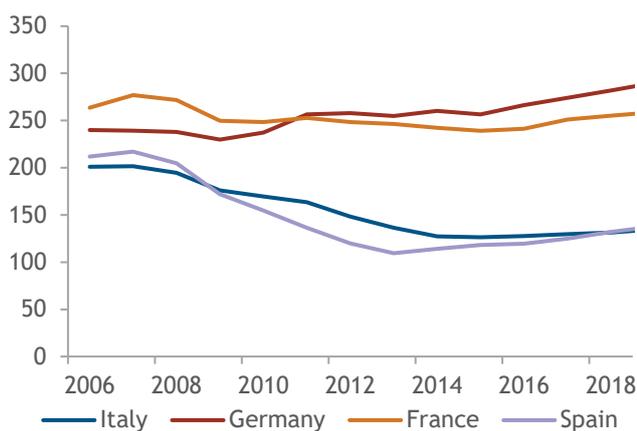
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Chinese influence in Europe is growing, not only at the EU's border but also in larger member states closer to Brussels. In addition to Hungary, Greece and Serbia, where Chinese investments have traditionally faced less scrutiny, China has increased its investments in infrastructure in countries like Spain, Portugal and Italy. China recently signed MoUs involving four major Italian ports as Italy announced its endorsement of the BRI, and China's FDI stock in Portugal has increased from €142m in 2013 to €2.1 bn in 2017. EU states like Germany and France view this as problematic, as Beijing's influence in recipient countries grows. However, Brussels finds itself in the position of demanding fiscal austerity on the one hand without an alternative to money from Beijing on the other.

**Fig 3: Investment in infrastructure**

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Source: CEIC, European Commission

This is clearly playing out in EU foreign policy. While Greece and Hungary recently refused to sign statements condemning Chinese human rights violations and behaviour in the South China Sea, other members of the bloc feel that EU values and interests are being undermined. For Greece and Hungary,

however, choosing between EU unity or occasionally looking the other way on human rights in order to secure funding for infrastructure projects is a deal they are willing to strike. Brussels understandably fears this is undermining Europe's ability to speak with one voice on foreign policy issues.

Chinese influence is exacerbated by a deeper structural issue: the erosion of traditional political parties in Europe, which makes far-sighted policymaking difficult. This places Brussels at a disadvantage to Beijing, which takes a long-term view. Consequently, as Brussels fails to deal with the growing need for infrastructure investments, China has the opportunity to fill the void and continue to influence EU investment and foreign policy.