



Department of Political Science and Public Policy

# China-Portugal economic relations: Analysis and prospects in the context of the Belt and Road Initiative

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## **ABSTRACT**

In 2013, the People's Republic of China (PRC) launched a new initiative that is currently referred to as the "Belt and Road" (B&R) initiative. It aims to establish new physical, political, commercial and cultural links across Eurasia. The "Belt" refers to the "Silk Road Economic Belt" a recreation of the land-based trade connections from China throughout Eurasia. The "Road" refers to the "21st Century Maritime Silk Road", a set of maritime routes that initially aims to extend over the South China Sea, the Strait of Malacca, the Arabic Sea and the Mediterranean Sea. Portugal is within the countries of reach of the project, although B&R is still in a very early stage for Portugal, with few explicit projects to link it with. This thesis aims to use three schools of IR theory (Realism, Liberalism and Constructivism) as its theoretical basis with the objective to link it with China-Portugal economic relations in the context of the B&R initiative. For that, we propose a research with quantitative data on Chinese trade, foreign investment and enterprise investment in Portugal. We also offer qualitative data in the form of interviews to have relevant insights in the prospects of China-Portugal relations. At the end, the goal is to link theoretical insights and the panorama of China-Portugal economic relations with the context of the overall B&R project.

**Keywords:** China; Portugal; International Relations; Economic Relations; Belt & Road.

## TABLE OF CONTENTS

1. INTRODUCTION .....	1
2. RESEARCH DESIGN AND METHODOLOGY .....	3
3. THEORETICAL FRAMEWORK AND LITERATURE REVIEW .....	5
3.1 On globalization.....	5
3.2 On the theories of International Relations .....	6
3.3 Chapter preliminary conclusions .....	12
4. ON THE B&R PROJECT .....	13
4.1 Defining B&R.....	13
4.2 B&R across Europe .....	14
4.3 B&R and Portugal.....	17
4.4 Chapter preliminary conclusions .....	19
5. ANALYSIS OF CHINA-PORTUGAL ECONOMIC RELATIONS .....	20
5.1 China-Portugal international trade.....	20
5.2 China-Portugal Foreign Direct Investment analysis .....	22
5.3 Chinese companies that invested in Portugal .....	24
5.3.1 The China Three Gorges Corporation (CTG) .....	24
5.3.2 The State Grid Corporation of China (SGCC).....	25
5.3.3 The FOSUN Group .....	25
5.3.4 The Haitong Bank .....	26
5.4 Chapter preliminary conclusions .....	27
6. RESULTS OF THE RESEARCH: CONNECTING DOTS .....	28
6.1 IR Theories on China-Portugal economic relations.....	28
6.2 Liberalism as the selected IR perspective for the prospection of China-Portugal economic relations .....	30
7. CONCLUSIONS AND FURTHER DISCUSSION.....	34
BIBLIOGRAPHY .....	36
ANNEXES .....	44

## **INDEX OF TABLES AND FIGURES**

Table 3.1: Operationalization of International Relations theories

Figure 5.1: China-Portugal International Trade

Figure 5.2: China's Take on Portuguese International Trade

Figure 5.3: Foreign Direct Investment in Portugal and Chinese Foreign Direct Investment in Portugal

Table 6.1: SWOT Analysis: A Liberal reading on B&R cooperation between Portugal and China.

## **GLOSSARY OF TERMS**

AICEP Associação Internacional das Comunicações de Expressão Portuguesa

AIIB Asian Infrastructure Investment Bank

ASEAN Association of Southeast Asian Nations

BES Banco Espírito Santo

BRICS Brazil Russia India China South Africa

B&R Belt and Road (Initiative)

CID Center for International Development

COSCO China Ocean Shipping Company

CTG The China Three Gorges Corporation

EDP Energias de Portugal

EU European Union

FDI Foreign Direct Investment

FDIP Foreign Direct Investment in Portugal

IR International Relations

IRT International Relations Theory

PRC Peoples Republic of China

REN Red Electrica Nacional

RNT Rede Nacional de Transporte

SGCC The State Grid Corporation of China

SWOT Strengths Weaknesses Opportunities Threats

TEU Twenty-foot Equivalent Unit

WTO World Trade Organization

# 1. INTRODUCTION

This thesis is designed to explore on some of the aspects within the process of globalization. The research considers, describes and analyzes how particular redefinitions of the economic and political spheres are developing. Our focus is on the economic relations between China and Portugal, two countries on opposite sides of the world. We aim to study this relation to find out what Portugal can achieve within the context of the B&R initiative, as well as the value Portugal can have in the context of B&R. The research question that we present in this thesis is “How can we perceive the prospects for the China-Portugal relations with the B&R initiative?” The main hypothesis for this thesis are that 1) B&R works as a consolidating factor for the globalization process, and 2) the B&R initiative holds value in current and future Portugal-China relations.

The phenomena with which this dissertation engages with are new and unfolding. The B&R initiative, only announced in early 2013, is in an infant stage. This is a limit this research must bear, because the existing bibliography is still produced and oriented towards a more general perspective. Its present and future are in a very uncertain moment. This is especially the case for Portugal, because it is not part of the initial plan, and so far, is only to be considered as an extension of the final European destinations of the routes that have a direct link to China. Likewise, the overall impact of Chinese investment in Portugal is another issue this research cannot have a clear say about. Its surge is recent and its effects are yet to be seen. Even within our time frame, its amount and impact had different effects in Portugal over the years. The possibility that the surge fades is as real as a new and even greater flow. Finally, the interest of Portugal in approaching China in spite B&R is something that is also in an early stage, with few cases that can be linked with the phenomenon.

This dissertation is organized as follows. After the introduction, we have Chapter 2, regarding the research design and methodology, where we explain where do we get our main sources of data, how do we present it, how do we analyze it and how we are going to present to test our hypothesis. Chapter 3 is about our theoretical framework and literature review, where we expose and develop the IR theories we selected and deconstruct them in the specific aspects that we want to use for our topic. We focus on the realist, liberal and constructivist doctrines. Each of them have a different insight

when it comes to the elements that we want to discuss for our research. The realist doctrine focuses on the “self-help” nature of nation-states, that are set on the acquisition and consolidation of resources through the use of means of hostility or the rational use of cooperation as means to compete in an *hegemonic system* where one nation-state is encouraged to exert a preponderance of power; liberalism has a different approach in the initial set of circumstances that define behavior in IR, making emphasis on the peaceful inherent nature of human relations and the influence of institutions, economic activity and profit as both the enabler for international cooperation and the disabler of conflict; lastly, constructivism sets the behaviors and attitudes in IR with a dynamic characterization, conditioned by the changing nature of identity, culture and values. Chapter 4 is dedicated to the explanation of the B&R project, its guidelines, nature, extent and main features. We make emphasis on the impact it already has in Europe. Chapter 5 is dedicated to the quantitative element of this research. In this part, we develop and analyze an overview of Chinese trade and FDI in Portugal, then we elaborate on a selection of Chinese enterprises that have made the most relevant investments in Portugal in recent years. On them, we analyse the investments they have done in Portugal, paying attention in the sectors of the Portuguese economy and the impact they have on Portugal. Chapter 6 is designed to present the results of the research; we aim to link our theory with our quantitative data in order to select an IR theory perspective that is better suited for the panorama of China-Portugal economic relations; once we select out theoretical perspective, a SWOT analysis is to present the possible prospects of relation between China and Portugal in the scenario of B&R cooperation. Finally, chapter 7 is about the conclusions we obtain and the elements to have further discussion on.



## 2. RESEARCH DESIGN AND METHODOLOGY

This research is based on a mixed methodological research design, with a predominant focus on quantitative analysis in macro level statistical indicators, complemented with additional qualitative data based on documentary sources and interviews.

Mixed methods, combining quantitative and qualitative research methods, are considered to allow for a better understanding of research objects due to the simultaneous use of research techniques. This allows for both the analysis of general patterns and a more in-depth exploration of the different dimensions of the phenomena under study.

This research takes the economic relations between China and Portugal as a concrete *case study* where both the general dynamic of globalisation and the specific economic strategies of the two countries in the context of the B&R initiative's development can be observed.

For the quantitative research, we present data on China-Portugal international trade, Chinese FDI and data regarding the investment of the main Chinese enterprises in Portugal. This component of the research design consists of an analysis of three different dimensions of the economic relations between China and Portugal: Trade, FDI and the activity of Chinese enterprises. Using data from sources like the AICEP, the research looks at: a) the evolution of international trade between China and Portugal (imports and exports); b) the nature of Chinese FDIP, comparing it to the overall portuguese FDI and c) the characteristics and activities of Chinese companies in Portugal, looking at indicators such as activity sector, investment scope and dimension, position in relation to other companies.

This quantitative portrait allows to draw a general picture, underline trends and patterns, and contribute to a broad understanding of the relationship under analysis.

The qualitative aspect of this research is to be found when we mention two interviews conducted to obtain key insights in the development of events regarding China-Portugal relations. Two key actors have been interviewed: we have an interview about China in today's international community with Mr. Jincheng from the Confucius institute of Lisbon and an interview with Mr. João Franco, vice-president of the organization "Associação amigos da Nova Rota da Seda" on the topic of Chinese investment and B&R cooperation in Portugal. Because the topic of B&R in general is quite new and

still in development, such an element can indeed influence the nature and outcome of this research with the emergence of new and unprecedented information. The insights and perspectives collected through these interviews allowed for a more in-depth exploration of the drivers of China Portugal economic relations, and, as such, have enriched the understanding of its present characteristics and possible prospects.

This analysis allows us to test the relative power of international relations' theories to explain the context and evolution of China-Portugal economic relations. Additionally, it is also the basis from where to reflect about the prospects for future relations between the two countries. The idea is to connect the dots between the theoretical and the empirical parts and to explore how, through the observation of a case, B&R can contribute to the globalization process.

### **3. THEORETICAL FRAMEWORK AND LITERATURE REVIEW**

The theoretical framework is based on the extensive review of the IR theories of realism, liberalism and constructivism. These were selected because of their dominance in the field of IR and the explanation they have on the issues of cooperation, globalization and economical activities. Once we elaborate on each of them, we are going to make a table that deconstructs those theories in the elements we want to pay specific attention. Those elements are goals/objectives (of the States); approach on economic activities; approach on cooperation and their approach on globalization. After we elaborate our table for theoretical framework, we are to use it to relate the possible prospects for China -Portugal relations in the B&R context in the terms of IR theory once we explain the B&R, its impact both in Europe and Portugal and the data we have on China-Portugal economical activities

#### **3.1 On globalization**

Globalization is a multidimensional concept. It can refer to the expansion and intensification of relations across the world and it can be seen as a process or as a condition (Steger, 2009). The process of globalization, is a set of stages that moves us from the “modernity” to a “post-modernity” (Steger, 2009: 8-9). Globalization as a process has been going on since the early days of human interaction and has historical, political, cultural, ecological, and ideological aspects that continuously transforms our present social condition of weakening nationality into one of *globality* that is yet to be reached. Authors such as Sirkin, et al (2008) set globality as a concept to define an era where markets flows everywhere, from everywhere and for anything; there is a characterization of enterprises and their economic activities with no headquarters nor central pattern of action; their activities are dynamic and can involve mixes of distant and different philosophies, practices or cultural values, thus creating a mentality designed to embrace profit and competition with concepts such as sustainability and cooperation.

Globalization has certain identifiable characteristics, although there is no consensus in the field about any of them. It involves a growing consciousness of the world as a single place; the creation of new social networks and activities that transcend borders; the acceleration of social exchanges and the evolution of information, communications, technology, production and distribution of goods and trade.

In the more economic aspect, it entails the concepts of capital movement, foreign investment, cooperation, symbiotic development, consensus on the norms that regulate trade and the convergence in the procedures of transportation, production and distribution of resources. Katzenstein (2005) makes a differentiation with the idea of internationalization, as a process that refers to territorially based exchanges across borders, where there is continuity in the system and changes in the flows of goods, services, and capital. Globalization, in contrast, is a process that has transformative effects on the social and political aspect. In this way of thinking, globalization is transformative in a sociological sense, pushing towards the convergence of institutions and practices (Katzenstein 2005: 13). Globalization can also be manifested in the intensification of economic exchange by the fragmentation of production and the relevance of international finance; or the way technology and communications develop. Kirshner (2006), argues that these processes are distinct, mutually reinforcing, but may not mean interdependence.

### **3.2 On the theories of International Relations**

IR is a relatively new discipline that studies interactions between and among what each school is to consider a key actor. The emphasis is often on relations between States, though other collective actors such as multinational corporations, transnational interest groups, and international organizations also play an important role. (Buzan, 2000). It can be conceived either as a multidisciplinary field, gathering together the international aspects of politics, economics, history, law, and sociology, or as a meta-discipline, focusing on the structures and patterns of interaction within the international community. Its principal branches include international political economy, international organization, foreign policy- making, strategic studies, and conflict resolution.

Realism and liberalism start from the premise of a state of anarchy in the international order. Anarchy not because there is chaos or disorder, but because they assume the absence of a formal system. IR can be mainly about the study interactions based on diplomatic and strategic relations, as well as the field of study for trans-border interactions. This establishes close relation to the concept of globalization, due to the new pattern of relations we create in the new processes of communication, transport and movement of resources.

The first doctrine that we develop, Realism, starts from the point that there is a state of anarchy in the international community. Nation-states are the main actors, because they

are sovereign and portray their own interest at the time of engaging in IR. Security concerns are both their top priority and goals. This state of anarchy alongside the concern for security portrays a reflection of a survivalist and rational nature among States, also known as a “self-help” world. This set of given circumstances makes realism to have a poor consideration on the importance of regimes and institutions, since what matters in IR is the acquisition of power as means for security (Morgenthau, 1973).

When there is growth and expansion among States, such development is naturally set to deal with conflict due to the growing capabilities and the assumption that peaceful cooperation is rare, because of the state of anarchy expresses a lack of harmony among the interest of nations. Cooperation is rare and activities such as trade, commerce and other economic activities are but mere results of rational choices that cannot tame the main concern of IR i.e. the struggle for power. Most trade activities in the international community can be understood as the necessity of great powers to open themselves to the international economy so they can maximize their capabilities (Krasner, 1976). The current state of non-conflict is due to the balance of powers between great powers, where every nation, region or bloc of States distribute their capabilities to maintain a balance among each other so there cannot be an absolute dominant power (Waltz, 1979). Given the circumstances of the balance of power, cooperation can only happen when States can achieve relative gains. This are benefits that a State can achieve in the pursue for the balance of power when their gains are profitable in comparison to other (relative gains). There will only be cooperation if the benefit that States can achieve for a given relation will enable them to exceed (or at least balance) the capabilities of their counterparts (Waltz, 1979).

On the phenomenon of globalization, since the hegemon is set to portray its influence over the international community and disregard the power of institutions that obstruct its position, globalization is but an extension of that State’s influence and interests, nevertheless States are entities that constrain and reject such phenomenon due to the nature of their sovereignty. This realist “resistance” to globalization is rooted in three foundations: first, the tendency for realism to stress continuity, rather than change; second, the anticipation of realists that States will seek, in rational self-interest, to enhance and protect their autonomy; third, a skepticism regarding the commercial peace, or the idea that interdependence between States is an important factor in

inhibiting war. (Waltz, 1979; Gilpin, 2001; Mearsheimer, 2001). Globalization also affects the balance of power between States, because due to the changes brought about to state autonomy and state capacity, there will be an alteration of relative capabilities, reshaping the distribution of capabilities and vulnerabilities between states. Unlike interdependence theory, globalization may not imply more peaceful relations between all States and it is more likely to reinforce incentives for peaceful relations only between advanced industrial States, while the “weak get weaker” originating issues that lead to conflict. (Brooks, 2005; Kirshner, 2007).

On the liberal perspective, while they also start from the assumption that there is anarchy in the international system, liberals emphasize the ethical principle over the pursuit of power by the compelling nature of institutions (Doyle 1997). States are not the sole key actors in IR, as liberals give importance to international institutions and non-governmental organizations because they are part of the framework that set the norms of action and behaviour. The institutional framework and type of regime matters because they value the common network of institutions norms and laws over States.

They are contrary to realist in the sense that they deny the absolute nature of the struggle for power, by stating that the struggle for power in IR is not a zero-sum game due to its multidimensional nature. Liberals set economic prosperity, profit and stability as their goal. The state of anarchy is just the initial set of circumstances that is to be regulated by institutions by setting the principles for cooperation and common governance. Institutions work as the element that counteract the constraining nature that anarchy has on cooperation. There is emphasis on the promotion of free trade, because they believe in economic activities as the main disabler for conflict. This is because liberalism sets absolute gains as the main concern for states, where their interests not only include power but also economic, social, political and cultural aspects as well. The idea of absolute gains is interrelated with a non-zero-sum game which proposes that through use of comparative advantage and capabilities, states who engage in cooperation can all expand.

The phenomenon of complex interdependence is the main reason why liberals argue that it is not difficult to see why countries can cooperate. The nature of the complex interdependence concerns itself with “low politics” (economic and social issues) as well as so-called “high politics” (security and territorial issues). A state that has prioritized “high politics” over economic cooperation would miss opportunities and could cripple

itself in the long term. Consequently, complex interdependence states that military force is not of decisive relevance to all aspects of international relations (Keohane & Nye, 1977; Bordachev et al, 2016).

Based on the promotion of trade and the pursuit for absolute gains, liberalism further relies on claims about the impact of interdependence, collective security and the existence of harmony of interests between states. Keohane and Nye (1997) explain that, via membership of international institutions, states can significantly broaden their conceptions of self-interest to widen the scope for cooperation. Compliance with the rules of these organizations not only discourages the narrow pursuit of national interests, but it also weakens the meaning and appeal of state sovereignty. Consequently, the phenomenon of globalization is an extension of the modernisation of economic relations. It is the result of the pursuit for maximizing welfare and profit, a growing global network and the transcendence of international institutions. When it comes to globalization, States may avoid violent conflict in order not to deter foreign investors. By ensuring political stability, states can thus create an environment that is desirable to foreign investors. In spite the most profitable logic, continuing the non-conflictive nature of relations the best way to maintain the welfare gains associated with foreign investment. (Bussman, 2010; Gilpin, 1975).

Cooperation and overlapping in economic activities among states, can be explained by the Copenhagen school with the concept of Securitization (Buzan, B. et al, 1998). The concept allures the idea that security is a socially constructed idea and can be shaped in spite common values or ideas among actors. It involves raising issues from the “lower” politics (such as trade) to the sphere of “high” politics (security concerns), by presenting a former “non-threat” into a concern of common consensus. Other constructivists like Finnemore hold that continuous interaction between international actors leads to a formalization in relations through international institutions on (Finnemore & Skkink, 1998: 905). International organizations affect the international economic and financial system through mechanisms that are both regulative (rational) and constitutive (constructivist or sociological).

Thus, social context in international economics can have an impact by fixing the meanings of elements such as capital control as policy tools or re-defining the freedom capital movements (Ruggie 1998; Johnston 2001; Barnett & Finnemore 2004). Examples of this socially constructed norms are: anti-dumping, anti-child labor, boycott and trade barriers based on health concerns. Ultimately, constructivist approaches assume that the world economy consists of both material facts and social facts (Abdelal,

Constructivist theory rejects the assumption of a state of anarchy (lack of a higher authority or government) as a structural condition inherent in the system of states. Anarchy is a condition of the system of states because states “choose” to make it so. Thus, constructivist theory holds that it is possible to change the anarchic nature of the system of states (Wendt, 1992). Anarchy can exist, but is not the same as an anarchy of friends than an anarchy of enemies, because all the relations in the international plain are constructed are not given as a state of nature. The nature of international life in anarchy is socially constructed like sovereignty and power (Wendt 1995: 78). The goals and objectives of the states are defined by their current social identity i.e. how they see themselves within the international community.

Institutions influence behavior and interactions; however, IR are defined by common ideas and/or values alluring to the idea of changing identities. Constructivism has a distinctive approach to IR, because that emphasizes the social and inter subjective, dimension of world politics. Constructivists insist that IR are not purely a rational action and interaction within material constraints (as some realists claim) or within institutional constraints at the international and national levels (as argued by liberalism). Thus, even economic activities be product of the process that shapes the identities of the actors. Actions such as trade and commerce are determined by either political, social or cultural identities in addition to the material incentive.

2007 *apud* Blyth, 2009:73).



Table 3.1: Operationalization of selected IR theories

	<b>Realism</b>	<b>Liberalism</b>	<b>Constructivism</b>
<b>Goals / Objectives of the actors (states)</b>	Survivalist nature; Security through the struggle for power.	Interdependence; Prosperity, profit and stability.	No set nature; They are constructed and shaped by the identity of their actors;  IR are not purely rational or materialistic.
<b>Economic Activities</b>	Necessity to maximize capabilities;  Result of rational choices and incentives.	Promoted as the main disabler of conflict;  Materialistic incentives for peace and stability.	They are determined by either political, social or cultural identities in addition to the material incentive;  The social context matters in the constrain or encourage of the economy.
<b>Cooperation</b>	Rare;  Only when states can achieve relative gains.	Cooperation is encouraged and compelled by institutions;  States seek absolute gains	Discourages rational and materialistic incentives;  Securitization as an explanation of a variable reason for cooperation.
<b>Globalization</b>	Expression of the hegemon (s);  States resist; Globalization does not have to mean interdependence.	Product of the pursuit of maximizing welfare;  Relevance of non-state actors.	Result of the continuous exchange and integration of culture and identity.

Morgenthau, 1973; Krasner, 1976; Waltz, 1979; Doyle, 1997, Keohane & Nye, 1977, Wendt, 1992, Abdelal, 2007, Finnemore & Skkink, 1998.

### **3.3 Chapter preliminary conclusions**

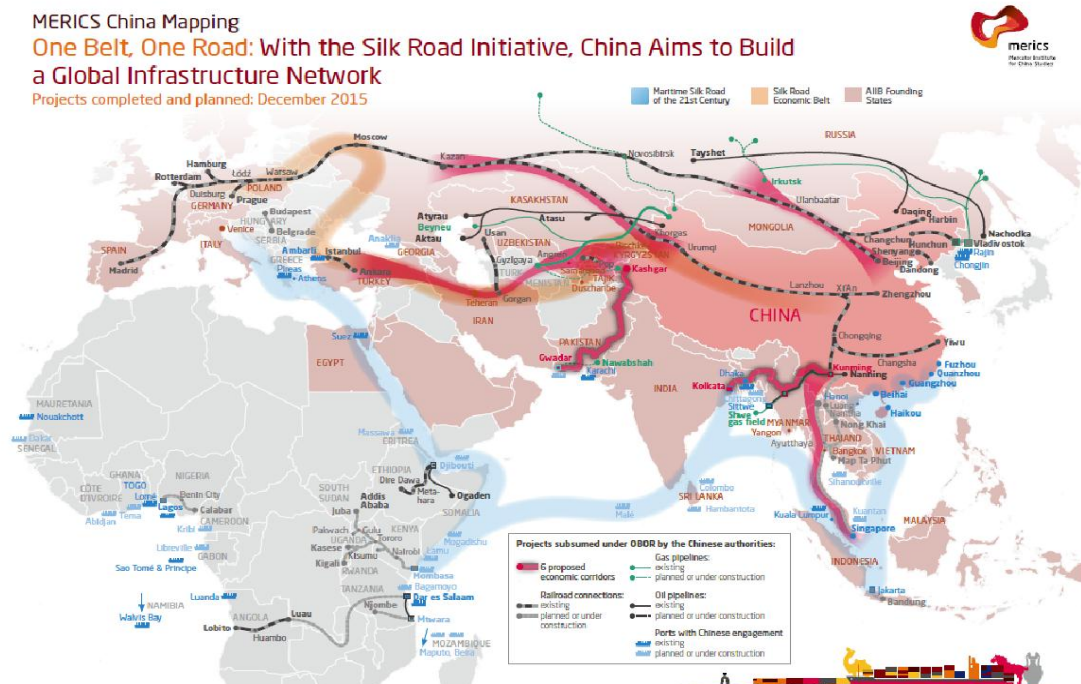
The IR schools we developed characterize IR with the following elements: 1) Realism understands that IR are carried primarily by States, they seek security as their top priority and seek to maximize their resources rationally to compete in the struggle for power. Cooperation is unlikely, and will only happen when their gains are relatively profitable in comparison to their counterparts. Relations with other nations are sustained by the balance of power (distribution of capabilities) and shaped by the expression of the hegemon; 2) Liberalism understands economic activities and its promotion as the goal for IR, conflict is not inherent in human relations. The activity of non-state actors is relevant in IR. Cooperation in spite absolute gains and compelled by institutions is the answer to be promoted against conflict. Because there is a material incentive in the pursuit of welfare, seeking to maximize profit is the element that shapes the process of globalization. This materialistic and profit-driven element creates new relations that are sustained by complex interdependence; 3) Constructivism sets IR with an adaptable nature designated by the dynamics of culture and identity. Besides material or rational incentives, the social, political and cultural element of the actors can constrain or encourage economic activities. Cooperation is achieved by the changing nature of what actors perceive as elements of “low” or “high” politics”. The continuous exchange and convergence between cultures, values and identities shapes the prospects for globalization.

## 4. ON THE B&R PROJECT

### 4.1 Defining B&R

The PRC set out the B&R initiative with the aim for transnational and transregional cooperation. It is set as a path for mutual and peaceful cooperation; integration of international and regional organizations; global development; cultural tolerance and integration; market prosperity in line with the international norms; resources allocation; internationalization of enterprises; government – business relations and the convergence of its members with development and prosperity as the biggest common denominator.

B&R focuses on policy coordination, connectivity, trade promotion, financial integration, and intercultural bonds. Policy co-ordination means that countries within the project are to engage into more regional and international cooperation. The focus on connectivity revolves around infrastructure facilities, railways, highways, air routes, telecommunications, oil and natural gas pipelines and ports. To promote investment and trade, B&R aims to reduce barriers, lower trade and investment costs, as well as to promote regional economic integration. For this, Chinese enterprises are encouraged by the government to “go global”. B&R further proposes coordination in monetary policy, expansion of the scope of local currency settlement and currency exchange in trade and investment between countries along the route.



Source: Merics Insitute (2015), available at [https://www.merics.org/fileadmin/user\\_upload/pic/China-Mapping/ChinaMapping\\_Silk\\_Road\\_DEC2015.pdf](https://www.merics.org/fileadmin/user_upload/pic/China-Mapping/ChinaMapping_Silk_Road_DEC2015.pdf)

In terms of intercultural bonds, B&R aims to promote exchanges and dialogues between different cultures, strengthen friendly interactions between the people of various countries, and heightens mutual understanding and friendship between partners. This goal can be achieved by many means, such as academic and professional exchanges between China and its partners as well as recreational activities such as sport events. Ultimately, the concept of B&R is an expression of the reinvention and reconfiguration of the globalization phenomenon (Mendonça, 2016).

During the last Belt and Road Forum<sup>1</sup>, Xi Jin Ping established the guiding principles that give the B&R initiative a purpose:

B&R as a road for peace: This implies that the initiative can only be developed in a peaceful environment, by promoting it through a win-win strategy; B&R as a road for prosperity: The B&R initiative is designed to support development across regions; enhance interconnected development in the form of foreign direct investment and investment in infrastructures; sustainability in green development and climate change issues; logistic networks; multilateral trade; and the promotion for more advances in global governance; B&R as a connection between civilizations, this part was designed to appeal to the cultural and human value the project can contribute to the world through the “replacement of feelings of superiority, mistrust and conflicts with the promotion of high-standards across international trade”, by making an emphasis in international counter corruption. This part also included the importance China gives to its own principle of non-intervention in internal affairs and respect of each member’s sovereignty.

#### **4.2 B&R across Europe**

China is now Europe’s fastest growing export market and overall trading has increased dramatically in recent years. Following a 37.7% spike between 2010 and 2011, when the value of exports increased to €113.45bn, and a further 20.2% increase between 2011 and 2012 to €136.42bn, growth has continued with exports worth €170.14bn in 2016, on par with the 2015 figure. This trend is expected to continue, particularly following the passage of a comprehensive EU-China Investment Agreement in November 2013, which eases restrictions on market access and provides a more secure and simpler legal

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<sup>1</sup> Belt and Road Forum, opening ceremony. May, 2017. Available at [https://www.youtube.com/watch?v=mx\\_mE951GzI](https://www.youtube.com/watch?v=mx_mE951GzI)

framework<sup>2</sup>.

China-Europe economic activities have seen an increase in the use of land based connection by railways and has been a success in recent years. The journeys of goods coming from China take around half the time of a similar sea voyage, and cost approximately half of the equivalent airfreight journey. This reflects the recent growth in the China-Europe rail freight market. Direct trains from China serve European cities, joining destinations in Germany, Poland, the Netherlands, Belgium, Italy and Spain on a transcontinental network of more than 40 routes. The speed of the service makes it particularly attractive to suppliers. From its hub in Yiwu, and working in close cooperation with China Railway and its subsidiaries, InterRail now serves Duisburg and Madrid twice-weekly, and has instituted a return Madrid - Duisburg - Yiwu service<sup>3</sup>.

Trains reach Europe using either the southern branch of the Trans-Siberian Railway from northern China or the Yiwu-Madrid railway line. Promoting and enhancing this railway link connections seems to be more practical and economic: Up to 50% is saved compared to airfreight costs; the transit is faster than sea freight, for example, the entire journey from Yiwu takes around 22 day to Madrid, Spain. There is a difference of up to 20 days when compared with shipping by sea from Ningbo, which is the nearest seaport to Yiwu; the train connections prove to be safer as well, with great cargo safety, as railway transportation methods are generally considered as safer than sea freight, air freight or trucking. In legal terms, it is also more advantageous, because the railway freight charges are all-in and subject to customs clearance charges and tax/duty only. Lastly, the shorter transit time can relieve faster cash flow and therefore more turnover is generated based on same amount of invested capital, which is very good for high-value cargo owners.<sup>4</sup>

The railway between China and Europe means: Higher volumes in economic activities; the growing network and frequency of service is inevitably translating into higher volumes. More than 40,000 TEUs were transported between China and Germany in 2016, a record, and that it is expecting this figure to grow to 100,000 by 2020, more than triple the amount carried in 2014. The B&R cited as the primary factor in the

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<sup>2</sup> China-Europe rail freight continues to soar. *International Railway Journal*.

<http://www.railjournal.com/index.php/freight/china-europe-rail-freight-continues-to-soar.html>

<sup>3</sup> Idem

<sup>4</sup> Yixinou China-Europe Railway Express. China-Europe Railway Express.

<http://www.chinaeuropairailwayexpress.com/china-europe-railway-express-westbound/china-europe-railway-express-westbound-full-con/yixinou-china-europe-railway-express-full-containe.html>

recent upsurge in volumes.<sup>5</sup>

The overall land-based strategy aims to restore the ancient “Silk Road” between China and Europe by encouraging investment in Eurasian transport and logistics networks, including rail, to boost Chinese trade and investment, and economic integration B&R is regarded as a long-term plan of cooperation. China pursues more cooperation with B&R countries and local business and enterprises by increasing trade and investment with them, while the actual train routes are quite developed; there is still room for enhancements to infrastructure and the logistics process. Access to the European network is also a problem due to ongoing restrictions.

As part of B&R, China is pushing, and largely funding, a vast programme of Eurasian infrastructure investment. The China Investment Bank estimates that over 900 B&R infrastructure projects worth \$890bn ranging from rail to roads, ports and pipelines are planned or in development.<sup>6</sup>



Source: The Independent (2015), Available at <http://www.independent.co.uk/news/world/europe/china-to-spain-cargo-train-successful-first-16156-mile-round-trip-on-worlds-longest-railway-brings-10067895.html>

As mentioned before, connection through sea-based routes is also of high importance in the B&R context. For example, Van der Puten et. al (2016), from the from the Netherlands Institute of International Relations, comment that trade with China is of

<sup>5</sup> Idem <sup>3</sup>.

<sup>6</sup> Idem

major importance for the port of Rotterdam, which plays a crucial role for the European economy. Imports from China account for one-quarter of all goods arriving by container in Rotterdam. The port of Rotterdam's relevance for the Silk Road was highlighted in May 2016, when China COSCO Shipping purchased a 35 per cent stake in the Euromax Terminal at Rotterdam<sup>7</sup>. The involvement of COSCO in the port of Rotterdam is very significant, since COSCO is China's largest shipping company. The investment increases the likelihood that COSCO will continue to use Rotterdam as the 'base port' for its container shipping operations in North-West Europe.

Greece also hosts one of the few large-scale projects in Europe that is clearly recognizable as part of B&R.<sup>8</sup> There was \$4.3 billion investment by COSCO at the port of Piraeus that aims to promote Chinese trade in South-East and Central Europe. The concession deal, worth over \$ 1 billion at the time, was signed by Greek Prime Minister Kostas Karamanlis and China's President Hu Jintao in November 2008. Since then, not only has COSCO invested the remaining money in the port's infrastructure, but it has also helped to attract other leading corporations to operate from Piraeus, such as Hewlett Packard, Maersk and the Mediterranean Shipping Company (MSC). The annual throughput of COSCO's subsidiary Piraeus container terminal nearly quadrupled from 880,000 TEU in 2010 to 3.36 million TEU in 2015, while the global ranking of Piraeus rose from 93rd to 39th in terms of container capacity over the same period after the expansion of the capacity of the Suez Canal in August 2015. A second agreement, which was signed on 8 April 2016, further upgraded China's presence in Greece<sup>9</sup>.

#### **4.3 B&R and Portugal**

Because the value Madrid has in the Yixinou rail link, it consequently adds up China's interest in Portugal because of its vicinity to Spain as well to access to Portuguese-speaking countries in Africa and South America. B&R may be the way for China to promote not only the actual instances of Sino-European cooperation on connectivity, but also as a narrative for increasing China – Europe relations. The elements that make Portugal an interesting country for any kind of investment are such as political stability,

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<sup>7</sup> Europe Container Terminals forms strategic alliance with COSCO Pacific in Euromax.

<http://www.ect.nl/en/content/europe-container-terminals-forms-strategic-alliance-cosco-pacific-euromax>

<sup>8</sup> 'The Ins and Outs of China Cosco's Pireaus Deal', Seatrade Maritime News. <http://www.seatrade-maritime.com/news/asia/the-ins-and-outs-of-china-coscos-pireaus-deal.html>.

<sup>9</sup> Greece, Chinese shipping giant sign agreement for Piraeus port stake sale. Xinhua News.

[http://news.xinhuanet.com/english/2016-04/09/c\\_135262464.htm](http://news.xinhuanet.com/english/2016-04/09/c_135262464.htm)

low wages, good existing infrastructures, modern economy, its geo-political location as a gateway to the EU and Portuguese-speaking countries as well as its privileged coastlines that engages with 75% of Asia's maritime traffic that passes to Europe.

There is a special value the port of Sines has in relation to this potential new relation. As discussed during the interview with Mr. João Franco, if there is more investment in the rail-link between Spain and Portugal (mainly the Badajoz-Portugal link), there could be a better connection between Spain and Portugal (mainly the Port of Sines). The deep-water nature of the port is a key feature. The connection is ideal for heavy shipments coming from China, as they can access the Atlantic Ocean by the Mediterranean Sea. These qualities bestow the port with the potential to be a central point that can have special value in relation to the new extensions that were made to the Panama Canal in 2016. Its unique location is an ideal connection for heavy shipments coming from China that are attempting to enter the Atlantic Ocean through the Mediterranean Sea, highly facilitating more circulation. The value of this arguments show us, in the present, the technical value the port of Sines may currently hold for the B&R initiative and how it can directly help in connecting to the whole maritime road of the overall project.

The growing interest from China with the B&R initiative, as expressed by Rodrigues (2016: 49), comes as an opportunity to raise the Portugal–China global strategic partnership to a new level of cooperation, thus increasing, diversifying and qualifying bilateral trade, investment and cultural relations. He further argued that B&R-related development in Portugal can be expected to build upon the existing relations. As commented during the interview with Mr. Jincheng, China-Portugal relations are already bestowed with good foundations and peaceful cooperation efforts, namely the Macao process of 1999. Moreover, the participation of Portugal as a founding member of the AIIB bestows it with a role to play in promoting B&R in its areas of influence, such as Africa and South America.

Otero-Iglesias et al (2015: 13) mentions Portugal as a great possible recipient of B&R-related investment due to the current flows Chinese Foreign direct investment (FDI). This was because Portugal presented openness, having welcomed Chinese investments in fields such as telecommunications, energy and transportation infrastructure. Moreover, B&R may be a leap towards increasing Chinese investment and relations. By making e emphasis in the position of Portugal as a bridge towards Portuguese-speaking



countries. Beyond strategic investments, Portugal has also become attractive for Chinese citizens because of the Golden Residence Permit program allowing them to reside in Portugal and move within Schengen countries without a visa<sup>1011</sup>. These elements are enough to lead to more investment in Portugal due to the accessing of new markets, global reach and guaranteeing the supply of raw materials and sources of energy between China and key regions such as Africa and South America.

#### **4.4 Chapter preliminary conclusions**

B&R sends a global message of promotion of international commerce, mutual technology and infrastructure development, knowledge sharing and intercultural bonds. Its formally presented as a “Road” towards development, global governance and peace. Europe is currently seen as the destination of the B&R and it is a key area of interest. At a regional level, infrastructure development and investment in sectors such as transportation and logistics are the trademarks of B&R. Europe is feeling the reach of B&R in the form of better transport and logistics. There is a crucial focus in the promotion and development of land-based connection from China to Europe (Railways) and sea-base connections (Ports). In Portugal, B&R is not very developed. Portugal holds great potential for the project due to its vicinity to Spain, the port of Sines and its gateway position towards Africa and South America. With B&R, Portugal may achieve a higher position in the global network of partnership that China has and can consolidate many of the investments they already have.

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<sup>10</sup> Chinese citizens invest 1.9 bln in Portugal under “golden visa” scheme (2017). Macau Hub. <https://macauhub.com.mo/2017/05/22/pt-cidadaos-da-china-aplicam-19-mil-milhoes-de-euros-em-portugal-ao-abrigo-do-regime-de-vistos-dourados/>

<sup>11</sup> The winners and losers of Portugals golden visa Scheme (2014). BBC New. <http://www.bbc.com/news/world-europe-26636829>

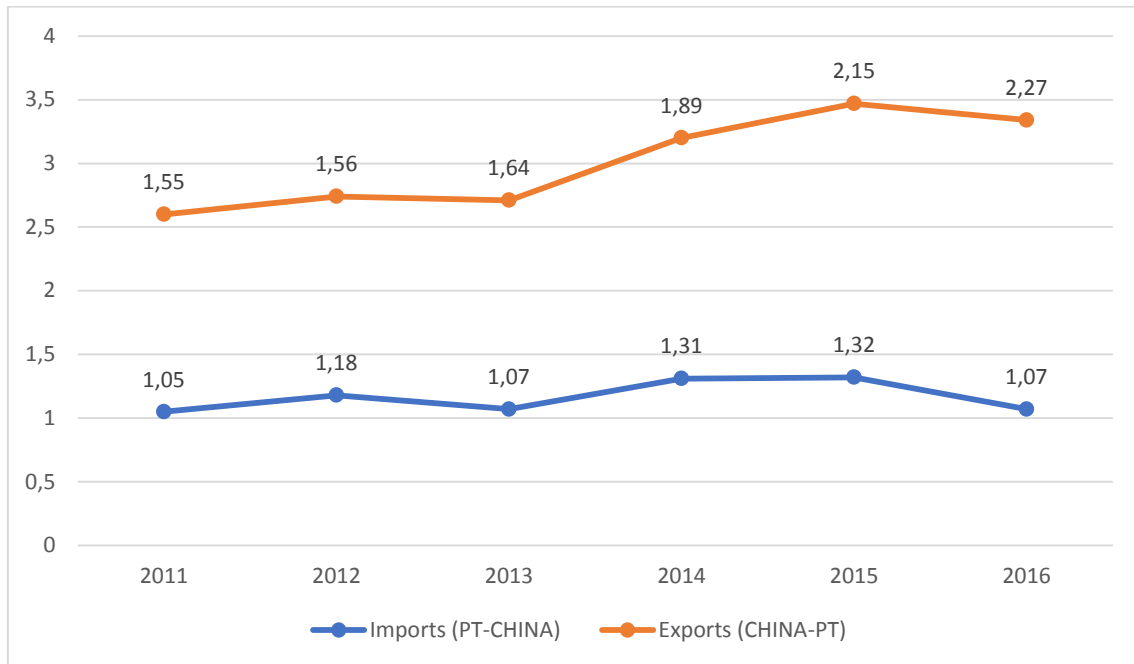
## **5. ANALYSIS OF CHINA-PORTUGAL ECONOMIC RELATIONS**

The key data sources for this part are the *Agência para o Investimento e Comércio Externo de Portugal* (AICEP) and the China Global Investment Tracker compiled by The American Enterprise Institute and The Heritage Foundation. It is worth mentioning in this part that from now on, all our monetary investment is to be understood in millions of US dollars. This part will include an analysis of the China-Portugal international trade i.e. the nature of the trade and its evolution. We also present a general overview of the FDI made by China in Portugal to have an approximate idea of the investments made by China in Portugal in the last couple of years. Next, there is an analysis of Chinese companies who invested in Portugal, they are the China Three Gorges Corporation, the State Grid Corporation of China, The FOSUN group and the Haitong Bank. This selection is due to its monetary relevance and impact in the Portuguese economy. At the end of each section, we aim to present them with their main features, how they have developed in Portugal and the nature of their investments.

### **5.1 China-Portugal international trade**

This part is to cover the evolution of China-Portugal international trade. Our sources are the AICEP and the Center for International Development (CID) of the Harvard University. In general terms, Portugal has seen its trade balance to recover since 2011. Alongside its recovery, it saw the entrance of new partners, such as China. In 2013, China rapidly ascended as the 10th largest client of Portugal, bypassing the position Brazil had since 2011. Exports from China to Portugal have seen an increase in relation to the 2011-2013, between a gross worth of \$ 1500-\$1600; This drop saw its recovery in 2014 with a value over \$1800. The most updated data by AICEP (2016) indicates that currently, China imports to Portugal a value around \$2270, 3% of all the imports of Portugal, and an increase of 0,1% in relation to 2015. Regarding the imports to China, Portugal has seen no major changes, with some peaks in 2014 and 2015, reaching values over \$1300.

Figure 5.1: China-Portugal International Trade



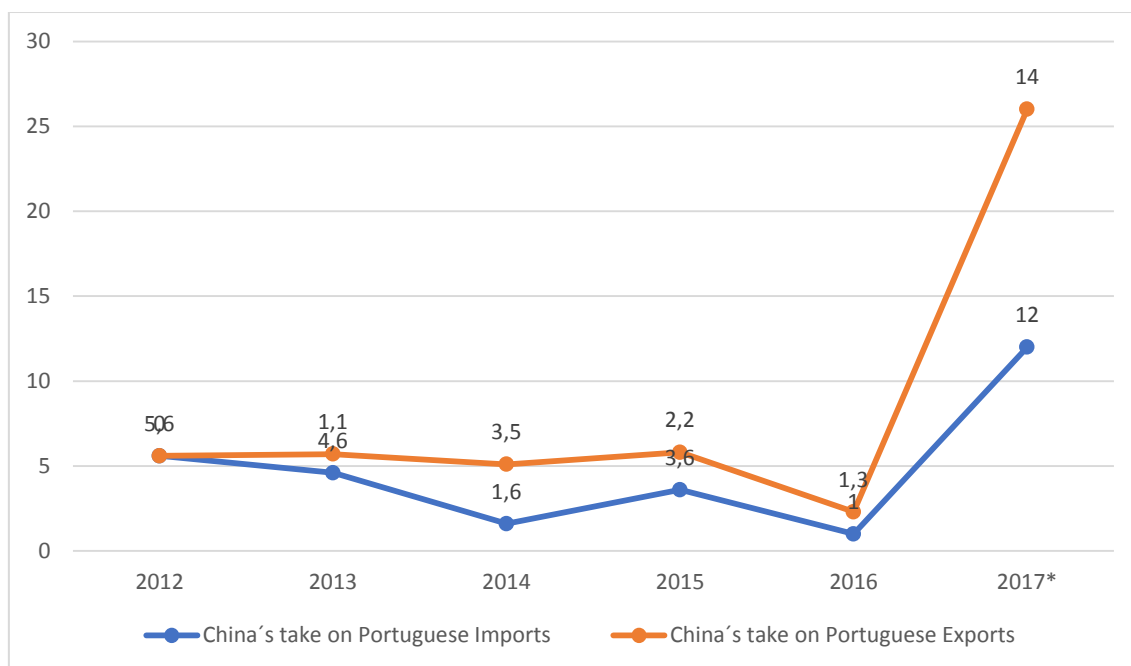
Units: Thousands of millions of US Dollars  
 Source: AICEP 2015-2016

According to the CID, the main exports from China to Portugal have usually been electric machinery, representing between 30-40% of all their exports. In 2011, the value of exports from China, regarding transportation and logistics represented 6% of the total exports, a value of over \$244, being cruise ships and motorcycle parts the prominent products. The general economy in Portugal during 2012, had an important decrease in this matter as well. Exports regarding transport and logistics decreased to \$91.7 and products regarding cruises and other transport logistics lost their prominence. 2013 was the year of recovery for overall China-Portugal trade, it recovered with the return of investments related to cruises and vessels in the sector of transport and logistics. Remarkably, this sector also reached a higher percentage regarding Chinese exports with a value of 7%, a percentage never seen before in this matter. 2014 portrays the continuation of this trend regarding transport and logistics; the percentage of this sector reached a new peak over all Chinese exports (10%) and cruises and vessels logistics remained a prominent product.

Moreover, the AICEP (2017) present a more relevant contribution of China in global Portuguese trade. In 2012, China contributed to 5.6% of Portuguese global exports, then saw a decline to 3.6% in 2015 but reached over 10% of this contribution by June of

2017. In terms of China's take on de global imports of Portugal, it had a slight but constant increase. By 2012, Portugal's overall imports saw a heavy drop, China's take on that years was quite insignificant. Since 2013, the take of China in global Portuguese imports was unstable; in 2013 it represented over 1%; 3.5% in 2014; 2.2% in 2015; 1.3% in 2016 and over 14% by June of 2017.

Figure 5.2 China's Take on Portuguese International Trade



Units: Percentage of Chinas take

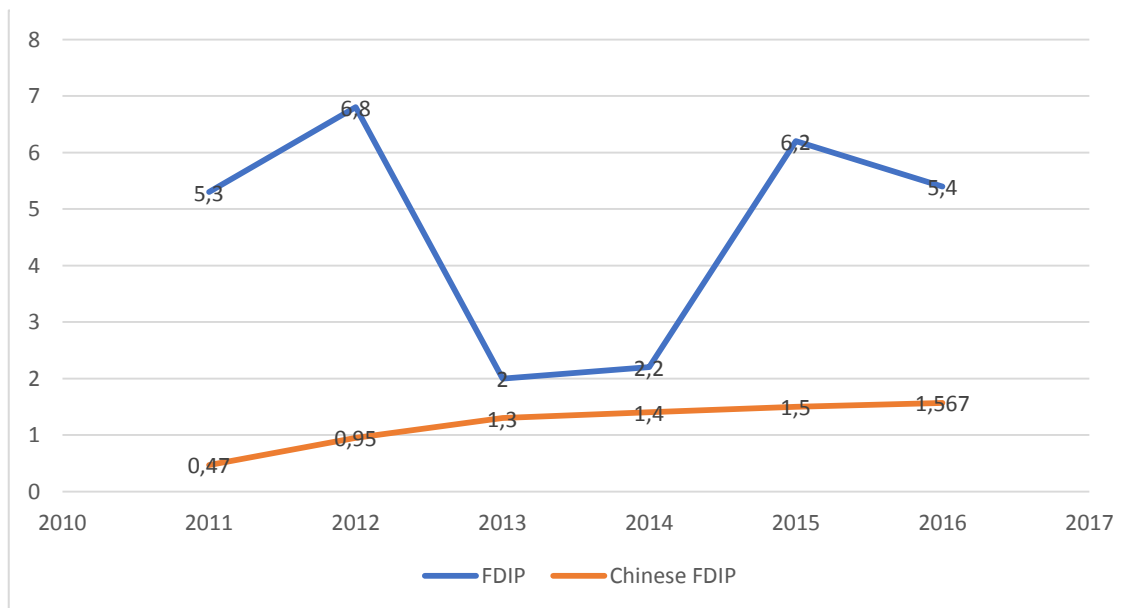
Source: AICEP (2017) China – Ficha Síntese País

## 5.2 China-Portugal Foreign Direct Investment analysis

Portugal ranked third amongst the recipients of Chinese FDI in 2014, with 10.6% of the total for Europe. Chinese investors have purchased 45% of the assets encompassed by the Economic Adjustment Programme in the last three years. Chinese investment has made vigorous inroads into the Portuguese energy sector (Cassaburi, 2016). According to the data from the Banco de Portugal provided to us by the AICEP, the flow of FDI had the highest value in the last five years was registered in 2012, when foreign direct investment in Portugal (FDIP) reached \$6894 and in 2015 with \$6250. In 2016 the registered value of FDIP was higher than \$5483. Overall, Portugal experienced a heavy drop by the end of 2012, only to be recovered in late 2013/early 2014. Therefore, late 2013/early 2014 was a year of recovery for FDIP. (AICEP, IDPE, 2016).

Focusing on Chinese FDIP, it has seen a steady growth. Before 2013, Chinese FDIP was quite low in comparison to most recent years. For example, in 2011, Chinese FDIP was only of \$47 million and it was only in 2012, that Portugal within the “PIIGSC States” (refers to Portugal, Ireland, Italy, Greece, Spain, and Cyprus) received an input of almost the double since 2011. In 2014, the total amount they have invested since 2000 has been of \$5430 million, making Portugal to be ranked as third amongst the recipients of Chinese FDI in 2014, with 10.6% of the total for Europe. In 2015, Chinese FDI increased up to \$5840, an increase of 7.05% in relation to 2014. Then in 2016, Chinese FDIP reached \$5886, this represents an increase of 3.4% in relation to 2015, an increase of 10.18% since 2014 and an increase of over 200% since 2011, being late 2012/ early 2013 the landmarks of this drastic change in Chinese FDIP (Cassaburi,

Figure 5.3: Foreign Direct Investment in Portugal and Chinese Foreign Direct Investment in Portugal



Units: Thousands of Millions of US Dollars

Source: AICEP (Ficha Pais) 2015-2016; AICEP (IDE) 2016

2016: 33).

### 5.3 Chinese companies that invested in Portugal

The largest Chinese investment in Portugal within our time frame was done by the CTG, with an investment of \$3970 in 2012 representing almost 45% of the whole FDIP that year. Next, we have the FOSUN group with a total investment of \$1950 in 2014, making them the source of up to 32% of the FDIP during that year. The SGCC registered an investment of \$510 in 2012 (almost 7% of the total FDIP in 2012). Finally, in 2015, Haitong Securities established in Portugal as the Haitong Bank with an investment of \$423 i.e. 6.8% of the total FDIP of that year<sup>12</sup>.

#### 5.3.1 The China Three Gorges Corporation (CTG)

This state-owned enterprise is most famous because of its responsibility in the construction of the famous Three Gorges Dam, known as the largest hydroelectric plant in the world. They have remarkable investments, mostly in the energy sector, all over the world. Outside Portugal, their most relevant investments have been in the energy sector in Brazil (\$1200 in 2014), Nepal (\$1200 in 2015) and Germany (\$1540 in 2016). In Portugal, with an investment of more than \$3500, they bought over 20% of Energias de Portugal (EDP), making them the current biggest shareholders of the company, as well as the protagonist of the biggest Chinese investment within our time frame (China Global Investment Tracker). EDP ranks among Europe's major electricity operators and it is one of the biggest Portuguese business groups, as well as the largest energy provider in Portugal. We mention this investment not only because of its economic relevance for Portugal at the time, but also because it is the first time that a Chinese state company invested in such a sector in Portugal, as well as because it marked an enthusiastic beginning in the interest of the CTG in the Portuguese energy sector. In late 2012, the CTG made a new investment of \$470 in buying 49% of the renewables subsidiary of EDP, EDP Renováveis.<sup>13 14</sup> The total investment done by the CTG in Portugal was over \$3970, in the sector of energy.

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<sup>12</sup> Calculations made based on the data on FDIP by the AICEP and the data on Chinese companies of the China Global Investment Tracker (Data sets 1+2)

<sup>13</sup> "China Three Gorges takes a 49% stake in EDP Renovaveis" *Wind Power Monthly*  
<http://www.windpowermonthly.com/article/1165161/china-three-gorges-takes-49-stake-edp-renovaveis>

<sup>14</sup> "China State Grid to invest more in European utilities if price right", *South China Morning Post*  
<http://www.scmp.com/business/companies/article/1253127/china-state-grid-invest-more-european-utilities-if-price-right>

### 5.3.2 The State Grid Corporation of China (SGCC)

This state-owned enterprise is of the largest electricity distributors of China, as well to other overseas markets in the world. This enterprise has also been a major player in international energy sector investment. Besides Portugal, their biggest energy investments were done in Russia (\$1140 in 2013), Singapore (\$4600 in 2013), Italy (\$2500 in 2014) and Brazil (\$4110 in 2016). Regarding the SGCC, it bought a 25% of the shares in Portugal's power grid operator, Redes Energeticas Nacionais (REN) in February 2012<sup>15</sup>. The REN is the concession holder of Portugal's two main energy infrastructure networks: the Rede Nacional de Transporte (RNT) and the Rede Nacional de Transporte de Gas Natural (RNTGN). The SGCC is now responsible for the planning, construction, operation, maintenance and global technical management of both these institutions. The total investment of the SGCC in Portugal was over \$510, in the sector of Energy during 2012.

### 5.3.3 The FOSUN Group

This international conglomerate has its headquarters in Shanghai. Around the world, their biggest investments have been finance and technology. They were a big source of investment in the U.S.A in 2013 were they invested \$730 in the real state sector and in 2015 they invested \$1840 in finance. They also had important investment all over the world such as in France and Israel. Regarding Portugal, in 2014 they were of this biggest finance investors at the time, with \$1360 in actions (80%) of Caixa Geral in the securities department with the acquisition of the institution now known as Fidelidade. This branch holds its significance in Portugal because of the fact that it controls one third of the Portuguese market and it holds about \$3 billion Portuguese public debt.<sup>16</sup> The purchase of the Fidelidade insurance company by FOSUN, which was already a shareholder of Redes Eléctricas Nacionais (REN), allowed the company to also have influence in the country's electricity infrastructure, consequently contributing in the energy sector.<sup>17</sup> During the same year, they also heavily invested in ES Saude by purchasing 51% of the entity with \$590 (Now known as Luz Saude). Lastly, in 2016,

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<sup>15</sup> China's State Grid to take 25% stake in REN. *Financial Times*. <https://www.ft.com/content/41a0c572-4dba-11e1-b96c-00144feabdc0>

<sup>16</sup> "Proposta Chinesa pela caixa de seguros mais de 200 milhões acima do fundo norte-americano", *Publico* <https://www.publico.pt/2014/01/04/economia/noticia/chineses-com-o-preco-mais-alto-para-a-compra-da-caixa-seguros-1618350/amp>

<sup>17</sup> Portugal foi o quarto maior destino de investimento chinês na europa na última década, *Observador*

FOSUN acquires 16.7% of BCP Millennium (Banco comercial português), the biggest private Portuguese bank by the amount of \$180, with the intention of reinforcing their investments in the incoming years.<sup>18</sup> The total investment of FOSUN in Portugal was of \$1950 in 2014, mainly in the sectors of finance and technology, but also with influence in the energy sector. In 2016 their investment in Portugal amounts for \$180 in the sector of finance with the promise of further investment.

### 5.3.4 The Haitong Bank

The Haitong Bank in Portugal is an investment bank that came as result of the purchase made on the 7 September, 2015. The Novo Banco concluded the sale of its capital investment unit to Haitong Securities for \$423, as result, what it used to be the Banco Espírito Santo de Investimento (BES) came to be the Haitong Bank<sup>19</sup>. Haitong Securities is a major securities firm in China, based on Hong Kong, it provides services of investment banking. In raw terms, the total investment in Portugal was of \$423 in the financial sector, during the year of 2015 only. However, a focus is done in this case because of the existence of newly signed protocols that enabled new Chinese enterprises to create an industrial zone and logistic operations involving the port of Sines. The protocols involved the Haitong Bank and the AICEP. Among the many strategic values this port hold is the nexus point for connections to Africa and America. Because of this context, Prime Minister Antonio Costa has already affirmed that Portugal is willing to participate in the B&R initiative.<sup>20</sup>

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<http://observador.pt/2015/02/17/portugal-foi-o-quarto-maior-destino-investimento-chines-na-europa/>

<sup>18</sup> “Chineses da FOSUN compram 16,7% do BCP por 175 milhões de euros”, *Observador*

<http://observador.pt/2016/11/20/chineses-da-fosun-adquirem-167-do-bcp-por-175-milhoes-de-euros/>

<sup>19</sup> BES investimento passa a chamar-se Haitong Bank, *Observador* <http://observador.pt/2015/09/07/bes-investimento-passa-a-chamar-se-haitong-bank/>

<sup>20</sup> “Governos de Portugal e da China assinam protocolos com Sines no horizonte”, *Ardina do Alentejo* <http://www.ardinadoalentejo.pt/regiao/item/997-governos-de-portugal-e-da-china-assinam-protocolos-com-sines-no-horizonte.html>



#### **5.4 Chapter preliminary conclusions**

International trade between China and Portugal has intensified, especially after 2013. While imports from Portugal to China have decreased in the last years, it has increased in comparison to five years ago. Exports from China to Portugal are on the rise and seems to be a continuity in this trend. The trend among Chinese exports to Portugal have been goods related with transportation and logistics. Proportionally, China's take on Portuguese international trade has not been stable but it currently seems to have an important take in Portuguese international trade, reaching a share over 10%.

Even when there was a heavy drop in overall FDIP during the period 2012-2014, Chinese FDIP has stayed on the rise. The rise of Chinese FDIP has been steady and seems to be a trend of continuation. Chinese FDIP is one of the highest in Europe and it has been relevant in the recovery of Portuguese economy, at least in the sectors of energy and finance.

In the last years, there has been an expansion of new Chinese enterprises in Portugal, meaning an expansion of the Chinese network in Portugal. This is something new to Portuguese economy i.e. the weight of Chinese companies and their significance in sectors such as energy. The contribution of Chinese enterprises in Portugal came during a time of economic crisis and necessity for new investment. Two cases (FOSUN and the Haitong Bank) had important developments in Portugal that set the promise of further investment, one with possible links to the B&R. The most relevant Chinese investments were made in the sectors of energy, finance and logistics. The CTG and the FOSUN group were the biggest Chinese entities to invest in Portugal since 2012. Energy has been the sector most benefited by Chinese companies since 2012.

## **6. RESULTS OF THE RESEARCH: CONNECTING DOTS**

In this part, we aim to connect some dots among our IR perspectives for cooperation, globalization and aspects of economic relations between Portugal and China. After we select a IR perspective that is better suited for the prospects of China-Portugal economic relations, a SWOT analysis designed to identify future and possible relations between the two countries in the context of B&R.

### **6.1 IR Theories on China-Portugal economic relations**

A realist perspective would see the intensification of trade relations between China and Portugal as rational incentive, motivated by the pursuit of relative gains in the pursuit for power. The competition for the struggle of power, would characterize China as a competing-rising hegemon that aims to challenge the current given status. The increase in trade relations that we observed, its continuity and the promotion of Chinese companies to “go global” would be a necessity of great rising powers to open themselves to the international economy so they can maximize their capabilities (Krasner, 1976). The rise of China’s take on Portuguese international trade and the importance of Chinese FDIP wouldn’t be enough proof for cooperation, because it would just be a projection of influence over other states. The process itself of economic relations wouldn’t mean more interdependence, but would characterize the whole process as an expression of influence of the hegemon. The fact that either internationalization or globalization have a growing protagonism from China, is part of the rational process of states in recognizing the relative gains that China can provide in comparison to others. Chinese enterprises and their actions are not relevant, because states are the main actors, therefore, all these elements are directly tied with national-interest policies. Allure to the institutional framework is regarded lightly, and the participation of either state in an institution designed and regulated in a non-unilateral aspect is a formality in the pursuit for “self-help”. Globalization would be better understood more as a de-fragmentation of the economic process Kirshner (2006) shaped by the influence of the hegemon, because there is little regard for cultural, social or political integration, convergence or exchange; the nature of state sovereignty would allure that Portugal is resisting the process we described.

Liberals would insist in the materialistic incentives of trade relations, FDI and the internationalizing of companies as an example of IR promoting peaceful interdependence. The mutual pursuit for maximization of profit is the reason why trade relations between China and Portugal have increased and are still encouraged. The already historical element of peaceful cooperation between China and Portugal (Macao Process) would allure to encouraged cooperation within institutional aspects. The element of security is not concern nor an element in this relation. The affiliation of Portugal in international organizations that promote cooperation such as the AIIB or the Confucius institute would be proof of encouraged cooperation compelled and complimented by peaceful behavior and institutions. The fact that Portugal has welcomed and adapted its legal framework for Chinese investment, is proof of this as well. Portugal seeks economic relations with China in the form of more trade and higher rates of Chinese FDIP as absolute gains, since encompass the economic and cultural value of IR. The intensification of this relation would also mean the expansion for a formal and institutional network of cooperation, since a liberal perspective would say that States are eager to achieve higher levels of cooperation for the sake of pursuing higher profits. This in turn, would say that Portugal could be interested when it comes to being more integrated in a new international network for cooperation, disregarding an idea of Portugal gaining something in comparison to others, since it would mean interest in developing together as a whole and not individually. This can be allured by, the growing percentage of China's take on Portuguese international trade, the expansion of Chinese FDIP and its companies in Portugal. It also further supports the idea of the phenomenon of complex interdependence as a reason why China and Portugal wants to cooperate, since there are more elements of high relevance besides security concerns for the development of international relations (Keohane & Nye, 1977). Non-state actors such as the institutions mentioned above and the Chinese companies in Portugal we discussed have a relevant take in forming this relation. Chinese companies are enabling the spread of cooperation networks, increased development in the sectors such as energy and transport, knowledge sharing and the maximization of the phenomenon of globalization as an extension of the modernization of economic relations. China and Portugal have avoided any possibility for conflict in order not to deter this relation, promoting an environment that is desirable for more possible investment. (Bussman, 2010).

The constructivist perspective would argue for the relevance of non-rational and non-materialistic incentives. This would imply that there is an important value in the re-shaping of the identities of Portugal and China. The initial conditions or interests among China and Portugal were not defined since the beginning as it was being constructed over time. The politics of internationalization and promotion of economic relations were being shaped by changing nature of political and social elements. This would imply that the relation we have studied was affected by a change in the identities of either Portugal and/or China. Thus, the embracing of Chinese investment, trade and its companies came as an expression of the construction of relation based in the convergence and integration of culture and identity. The way cooperation has been encouraged and engaged would have been through the process of securitization, where China would have presented economic partnership and cooperation towards a higher relevance, from the sphere of the low politics to the high politics. China would seek to diversify its partnerships and cooperation with States to promote a convergence of identities and values when it comes to the pursuit of energy, cultural, commercial, logistical, and political aspects (Duarte, 2017). There is impact from the social context in the economics relation between China and Portugal, because Portugal has shaped its approach towards China in spite their growing relations, cultural integration and overlapping of values (Ruggie 1998; Johnston 2001; Barnett & Finnemore 2004). The motor for the globalization process that entailed trade relations, FDI and the relevance of international enterprises is not mostly explained the pursuit for the maximization of self-help interests nor profit, but also considers relevant the political, social or cultural aspect of the relation.

## **6.2 Liberalism as the selected IR perspective for the prospection of China-Portugal economic relations**

A liberal perspective would be the proper IR approach to understand the prospects of China-Portugal economic relations for the context of B&R. This is due to an elimination of elements that are either non-applicable with our data or due to an aspect from the other IR perspectives that was not able to give an explanation about the aspects we presented.

Firstly, since security is not a main concern in the relation between China and Portugal, there is no survivalist instinct in the development of their economic relations. On the contrary, the research showed that Portugal has embraced more economic relations with

China in the last couples of years not only by allowing more trade and investment, but also by allowing Chinese nationals to have easier access in their activities in Portugal. The intensification of the phenomenon happened between 2011 and 2013, when there was encouragement to seek a solution to the economic crisis. Therefore, we understand that there was a material incentive that encouraged Portugal to seek partners such as China, without regards for security or cultural, social or cultural concerns. Cooperation proved to be on the rise and its peaceful development has seen continuation between Portugal and China, with important historic precedents of such relation. Cooperation has mainly increased in seeking an intensification of economic relations and not by the convergence of mutual interest in the changing identities of either Portugal or China. Institutional means as a compelling element for more cooperation and economic activities have been relevant in this relation, since Portugal showed compliance with institutional frameworks such as the AIIB and its participation in other international organizations. Non-state actors and organizations play a relevant role, because they promote more cooperation in spite welfare and the promotion of peaceful relations. Chinese companies and their activities are important, because of the extension of cooperation networks, their contribution in the development of economic sectors such as energy and transport, the spread of knowledge sharing and the maximization of the phenomenon of globalization as an extension of the modernization of economic relations.

Table 6.1 SWOT Analysis: A Liberal reading on B&R cooperation between Portugal and China.

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> <li>• Portuguese as the most spoken language spoken in the South Hemisphere: Cultural gateway.</li> <li>• Portugal features special tax and residency permit programs for Chinese nationals.</li> <li>• Portugal has good infrastructure due to EU Standards</li> <li>• Younger generations in Portugal are educated, skilled and in great demand for higher labor opportunities.</li> <li>• Portugal has a stable government suited for further foreign investment</li> <li>• Geographically privileged: Next to Spain and with access to the Atlantic Ocean and the Mediterranean Sea</li> <li>• Gateway for the South American and African Market</li> <li>• Portugal has low wages in comparison to EU standards</li> <li>• Chinas growing economic power has not ceased</li> <li>• China is currently the most accessible and cheaper source of resources compared to other big international markets</li> <li>• China as large, dynamic and attractive economy</li> <li>• China is already part of a solid and large network of international trade and cooperation</li> </ul>	<ul style="list-style-type: none"> <li>• Cultural and linguistic barriers</li> <li>• Portugal alone as a small-medium size market</li> <li>• Chinese projects not a top priority on local governments</li> <li>• Young institutional framework</li> </ul>

OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> <li>• Portugal as a recovering economy</li> <li>• Portugal as platform to other markets: South America and Brazil</li> <li>• Point of interest in post-Panamax era regarding heavy shipments</li> <li>• Portugal as country with demand for imported goods</li> <li>• Ideal location for the end of the land-based B&amp;R route in Europe.</li> <li>• Ideal location for the sea-based connection between the Mediterranean Sea and the Atlantic Ocean</li> <li>• Further consolidation and expansion of the B&amp;R in Europe</li> <li>• The install and success of B&amp;R in Portugal as a good example for Portuguese-speaking countries</li> <li>• Continuation and reinforce in the investments China already has in Portugal</li> <li>• Chinese presence to reinvigorate the port of Sines, as well as to bestow it with geographical relevance across the world-wide network of China</li> <li>• Rise of Portugal even higher in the sphere of global strategic partnership and cooperation that China projects</li> <li>• Expansion of the network regarding trade deals and access to other resources</li> <li>• Support in Portugal's own regional expansion when it comes to logistics and transports</li> <li>• More networking, knowledge sharing and new investments</li> </ul>	<ul style="list-style-type: none"> <li>• Vulnerable market, still recovering from economic crisis.</li> <li>• An aging population</li> <li>• Distancing of Portugal from traditional western partnership networks</li> <li>• Projected instability due to social unrest in China</li> <li>• Ambiguity in issues such as the rule of law and the environment</li> <li>• Heavy government influence</li> <li>• Difficult positioning in political issues regarding China</li> </ul>

## **7. CONCLUSIONS AND FURTHER DISCUSSION**

We chose the liberal perspective to understand economic activities and its promotion as the goal for the IR approach between China and Portugal in the context of B&R. The issue of security is not a concern in the current and futures relations between China and Portugal. Portugal has embraced more economic relations with China in the last couples of years by allowing more trade and investment. We understand this phenomenon to occur because there was a material incentive that encouraged Portugal to seek partners such as China. There is an increase in the spread of Chinese cooperation networks, as well as their contribution in the development of economic sectors such as energy, transport and knowledge sharing as an extension of the modernization of economic relations.

Europe is currently seen as key destination region for B&R. The initiative has been presented and developed in order to consolidate new projects regarding transportation, logistic and infrastructure improvement and innovation. Therefore, we can conclude that B&R works as a consolidating factor for the globalization process, because we understand it as an extension of the modernization of economic relations, resulting from the maximization of productivity and profit. Such elements can be found in the increase of trade and capitalization of resources such as those portrayed by the growing rail-linked trade between China and Europe.

There is a crucial focus in the promotion and development of land-based connections from China to Europe (Railways) and sea-base connections (Ports). Even thou in Portugal B&R is not very developed and current Chinese investments in Portugal hold little relation to the project, the B&R initiative holds value in current and future Portugal–China relations, because it gives China an ideal opportunity to consolidate its project in Europe and further expand it to other regions such as Africa and South America. On the other side, it gives Portugal the opportunity to rise in the ranks among the vast international cooperation network of China and further develop their investment regarding regional logistics, connectivity and transport, alluring to its vicinity with the end of the Yixinou rail link in Madrid and the qualities of the port of Sines as an ideal location for heavy shipments that wish to access the Atlantic sea by the Mediterranean Sea.



On one hand, Portugal has not yet fully embraced Chinese investment and B&R-related projects like other European countries, yet on the other hand, Portugal is an example in Europe with historic good relations and culturally welcoming attitude towards Chinese nationals and their activities. The economic value of China and its investment in Portugal is recent and does not hold much relation to the current objectives of B&R. However, many of those investments and economic relations can be the foundation and overlapping point for future B&R projects and specific B&R-related investments.

There is further discussion in how Europe and Portugal may receive the possibility of being more engaged in B&R. The continuation of the importance and the receiving of further Chinese investment in Portugal is an uncertainty that, due to its recent surge, remains with little precedent to be assured if it will either increase or continue. The role of China in the process of globalization is also a topic for further discussion, since we still live in times where there still is predominance of other economic powers such as the USA. Lastly, another point for further discussion would be the relevance of B&R in either Portugal, Europe and the world. Would it be a successful project? Will it be able to intensify and promote economic relations and integrations in spite the principles of global governance and peaceful relations? The project is yet in need of many decades of planning, funding and development to have a visible prospect.

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## ANNEXES

### Events attended

- B&R breakfast. Lisbon, October 2017.
- Fórum Económico Portugal-China, November 2017.
- Fórum económico Sino-Português “*uma Faixa, uma Rota*”, May 2017.
- Seminar “*A República Popular da China no Mundo Global do Século XXI*”, Instituto Universitário Militar, May 2017.

### Interviews

Mr Jincheng from the Confucius institute: China in the international sphere with B&R (June, 2017)

1) Can you explain the Chinese perspective with concepts?

1. Tianxia

It is a concept that was designed to address the whole world under heaven. At the time, it was the people who lived in the kingdom of China. It is currently used in the present to address the whole planet, so China and the World.

2. Guanxi

No matter what we do, our personal relations depend on this concept. There are several levels of Guanxi: Within the Family: Business to business; Business to government, etc. The main point is about establishing trust in relationships.

3. Harmonious worldview

It entails seeing friendship as the only equal relation, but at the same time, understanding that good governance comes from equal treatment from the government to its subjects.

2) Having China in the international sphere in mind and talking into account the B&R project. How do you think this concepts can be understood? What do they mean? What kind of message are they sending?

A. Tianxia

Common Destiny

B. Guanxi

Guanxi as a universal concept for relations

C. Harmonious worldview

In the present is about establishing economics relations in harmony and against protectionist policies.

3) Concerns regarding the world perspective of China were found during the academic research in the form of misperceptions of the concepts we've mentioned. Why do you think this happens? What do you think we are doing wrong or need to do to "fix this"?

It is all about lack of communication. The world is facing uncertainty about China. Portugal is different from other European countries historically speaking. The Macao process is a good example of how Portugal is engaging in good prospects with China.

Mr. João Franco vice-president of the Portuguese association “Friends of the New Silk Road” and former manager of the Port of Sines: Prospects for the B&R in Portugal (July, 2017)

- 1) How would you explain the B&R initiative?  
B&R as an initiative to increase commerce and cooperation through land and sea routes. It greatly involves Europe and has great potential to reach Portugal.
- 2) Do you have any key word for it?  
Interconnection as a key word.
- 3) Would you think that B&R marks or means something when it comes to international relations with China?  
B&R highlights the relevance that China has today in the world. It projects its interests and economic evolution. The initiative projects and visualizes the recovery of its economy and the position China is having in the world. It also works as an initiative to extend China's market to satiate its economic growth
- 4) What are the prospects that B&R can present to Portugal?  
It has a lot of value and interest for Portugal. It gives to Portugal the chance to exalt its privileged location and maritime position towards America and Africa. The connection to North America is specially remarked, due to the new extensions of the Panama Canal. It is also a great chance for Portugal to access the immense market network that China has.
- 5) How can the B&R affect Portugal?  
With a more engaged Portugal in B&R, it is expected new Chinese investments in 1) The new container terminal in Sines 2) The rail way that connects Sines to Badajoz (Spain) 3) In logistics involving the port of Sines, mainly equipment and assembling logistics and 4) The possibility of a shipyard in Algarve.
- 6) How can B&R affect China-Portugal relations?  
China already values the historically good relations with Portugal. B&R will serve as a new discourse to visualize internationality and the extrapolation for a peaceful and non-violent power. B&R is to work for all its partners to divide economic from military power. Specifically, for Portugal, we hope it creates an intensification in relations with China, at least when it comes to maritime economic relations (The port of Sines).
- 7) What can be the challenges B&R may face in Portugal?  
A lack of comprehension from the Portuguese community in overall Chinese investment. B&R will need promotion and support. It is important that there is a re-discovering and a true understanding of the possibilities China can bring.

The Portuguese community does not fully understand its dimension and scale in the world. It is important that we pay close attention to this chance and realize that the Chinese want to invest by the millions. We had good experiences so far. Most investments were nicely done, completely legal and always remembering the historically good relations.